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INTERNATIONAL DEVELOPMENT COOPERATION

SET OF LECTURES

Edited by
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Foreword from the Coordinators of the Word Bank "Russia as a Donor Initiative" Program

International development assistance is a sphere of international economic and political relations that has been undergoing profound, transformative changes over the last 10 to15 years. These changes include: a diversification of development actors; a vast increase in official development assistance (ODA) and foreign direct investment (FDI) levels; the emergence of new concepts and approaches to development cooperation based on the treatment of the recipient countries as partners; and a growing role for "emerging donors", including the Russian Federation.

Russia's engagement in international development cooperation has been broadening across several dimensions. First, Russia has been making a substantial contribution to setting a global development agenda as a member of the both the G8 and G20 groupings. Second, Russia has launched and actively participated in several innovative aid mechanisms, such as the EurAsian Economic Community (EurAsEC) Anti-Crisis Fund. Third, Russian engagement has progressed from restructuring the debts of developing countries to providing financial resources to new development programs. Russia's yearly contribution to the global ODA portfolio has increased to half a billion USD. The legal and organizational framing of Russia's national system of participation in international development cooperation has also gained momentum.

The motives behind the Russian Federation's participation in international development cooperation are very diverse. Like many "established" donors, Russia pursues several objectives simultaneously: to foster favorable conditions for solving global and regional political issues; to ensure sustainable economic and social development of the recipient countries; and to strengthen ties with the Post-Soviet states. Sometimes political and image considerations also play a role, which is hardly surprising given that currently the promotion of a positive image for a country – both domestically and internationally – becomes one of the pivotal tools in achieving its goals and is a precondition for both a successful domestic and a successful foreign policy.

It is emblematic that many Russians share the view that ODA funds should be spent primarily on poverty reduction. A substantial part of the Russian population emphasizes the need for building capacity in aid recipient countries, and not just transferring resources ("give them a fishing rod, not a fish"). More than 75 percent of Russians welcome Russia's engagement in international development cooperation, including a group of dedicated supporters of aid who think that a country like Russia cannot help extending its hand to other nations. Russian people are especially supportive of their country's participation in natural disaster emergency relief, the provision of assistance to the former Soviet Republics, and strengthening cooperation with international organizations[1].

1 RUSSIANS ABOUT DEVELOPMENT ASSISTANCE. Findings of Public Opinion Research. World Bank/Levada-Center, 2010.

Guided by the "Concept of Russia's Participation in International Development Assistance" approved by the President of the Russian Federation in 2007, the Russian government is currently setting priorities and determining the level and composition of its ODA budget. It will be necessary to focus on overcoming underdevelopment, fighting poverty and promoting economic growth in partner countries and to choose the appropriate organizational model after carefully weighing pros and cons of decentralization, i.e. the engagement of a substantial number of ministries and agencies in the decision-making process, and the benefits of a more centralized approach. To achieve strategic goals in the sphere of international development cooperation it will also be necessary to determine appropriate aid levels, to find a balance between bilateral and multilateral assistance, and to determine ways to enhance cooperation with multilateral organizations and other development partners.

In the past, "established donors" would make such choices invoking their national interests, their assessments of economic opportunities, and their past experience. In the current era, national policies in the sphere of international development assistance are influenced by many other factors. First, there is an increasing diversification of both channels and sources of aid. This makes coordination of efforts between donors a precondition for effective development policies. Second, there is a need to establish viable ways of engaging recipient countries into the process of defining priorities and forms of aid delivery, as well as its outcomes. Third, there is a need for prioritization. Whereas the first decade of the 21st century started with adoption of the UN Millennium Declaration that emphasized poverty reduction and gender-balanced progress in social sectors, the beginning of the second decade was marked by an adoption of the "G20 Multi-year Action Plan on Development" which the G20 leaders consider addresses a "significant bottleneck to increasing and maintaining growth in many development countries."The G20 Seoul Summit in 2010 prioritized infrastructure development, human resources development, trade, private investment and job creation, food security, growth with resilience, financial inclusion, domestic resource mobilization, and knowledge sharing. Fourth, there is a focus on aid effectiveness. It is absolutely clear that identification of clear objectives and indicators for achieving results must become an integral part of every development project and the national development program as a whole.

Russia's participation in international dialogue on development, which recently entered a new stage, is becoming increasingly important. The international community has been engaged in development of new supra-national mechanisms meant to enhance coordination and monitoring of financial flows. One of the primary goals is to adapt development policies to the new realities of the last decade which have been marked by remarkable shifts in the balance of power in the world economy and the emergence of new development players beyond the Development Assistance Committee of the Organization for Economic.

Cooperation and Development responsible for monitoring ODA flows and organizing the High-Level Forums on Aid Effectiveness. The 2011 Fourth High-Level Forum in Busan has strengthened the international consensus on the need for a new format of engagement, and rejected of the concept of "development assistance" in favor of a "global partnership for effective development cooperation."

At the time when Russia is seeking to define its role in this global partnership, it is highly important that the most relevant issues of international development and development cooperation be represented in curriculums and research programs of Russian universities, think tanks and research institutions. The participation of the academic community in discussing development policies, evaluating Russian development programs, and training young specialists has a paramount importance in the establishment of a genuinely effective national system of engagement in international development cooperation. In this regard, the development of a set of lectures on international development assistance by Russian academics constitutes an important step in promoting awareness of the importance of fostering development. This set of lectures is a follow-up to Deputy Minister of Finance Sergey Storchak's "Contingent Liabilities-2. Essays on Finance Diplomacy" published in spring of 2012[2].

This set of lectures has been prepared under auspices of the World Bank-executed technical assistance program "Russia as a Donor Initiative" that had received financial support from the Department for International Development of the United Kingdom and has been implemented with close coordination with the Ministry of Finance and the Ministry of Foreign Affairs of the Russian Federation. The goal of the educational component of this program is to raise the awareness of Russian academics to the broader context of international development and to learn from the experiences of leading foreign institutions' experiences in teaching this discipline. The set of lectures has been crafted by a team of academics from leading Russian universities at the time when the Russian government is broadening the scope of its development assistance programs and has renewed internal dialogue on the creation of a national development agency. The World Bank staff members have played the role of experts, reviewers, and coordinators of the whole process.

This set of lectures examines many of topical issues in international development cooperation from an interdisciplinary perspective. This interdisciplinary focus reflects both a divergence of professional interests of project participants, and the multi-dimensionality of the development process, encompassing a variety of economic, social and political transformations. The set of lectures focuses not only on the quantitative parameters of aid delivery, but also on various models of participation in international development cooperation and the specifics of work in individual sectors as well. It also pays special attention to the problems of engagement in "fragile states and situations" which have recently emerged as a top-tier priority in international development cooperation.

2 Storchak, Sergey. 2012. Uslovnye obiazatelstva-2, ili Ocherki finansovoi diplomatii. Moskva: Zebra-E. Lectures 5 and 6.

The set of lectures has a modular structure. This allows them to be used as the basis for different educational programs varying in length and thematic focus – from specialization courses for post-graduate students to intensive short retraining programs for state officials involved in the implementation of development programs. Individual lectures may also be included in extant courses taught in universities and retraining institutions, and used by the students and the members of academic communities for educational and analytical purposes.

This set of lectures makes an important contribution to strengthening Russia's potential as a donor and partner in global development cooperation. The joint work of the World Bank staff and the Russian ministries and agencies responsible for international development cooperation is identified as one of priorities in the World Bank Country Partnership Strategy for the Russian Federation for 2012-2016.This strategy creates opportunities for launching new initiatives. Intensified training of practitioners, inclusion of development issues in the curriculums of the Russian universities, and implementation of related research programs will all help enhance the effectiveness of Russian development assistance. This set of lectures is only a first step. The main work lies ahead. Russian universities and academics are invited to continue this important dialogue which is coordinated by the World Bank Moscow office with an active participation of Julia Komagaeva who made an invaluable substantive and operational contribution to development of this set of lectures.

The project coordinators would like to thank the team of Russian academics who participated in developing this set of lectures – Anna Abalkina (Financial University under the Government of the Russian Federation), Anna Abramova (Moscow State Institute (University) of International Affairs under the Ministry of Foreign Affairs of Russia – MGIMO), Vladimir Bartenev (Lomonosov Moscow State University - MSU), Michael Vasilyev (MSU), Elena Glazunova (MSU), Elena Zavyalova (MGIMO), Yury Zaitsev (National Research University – Higher School of Economics – HSE), Larisa Kapitsa (MGIMO), Olga Kozlova (MGIMO), Olga Perfilieva (HSE), Valentin Pospelov (Financial University), Ludmila Chikhun (MSU) and their colleagues from the Institute for Development Studies at the University of Sussex (United Kingdom). The coordinators also extend their acknowledgements to the members of an Advisory Council of the "Russia as a Donor Initiative" program co-chaired by Andrey Bokarev (Ministry of Finance) and Victor Zagrekov (Ministry of Foreign Affairs) and partners from other multilateral and bilateral development agencies.

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Introduction

This set of lectures developed by a group of Russian scholars represents an introduction to international development studies and international development cooperation. The Western expert and academic communities have been devoting significant attention to this discipline for decades. But in the Russian Federation such an attempt to summarize the main theoretical and practical aspects of development studies and international development cooperation is undertaken for the first time.

The need to develop such a set of lectures is warranted by practical objectives. In June 2007 the Russian Federation adopted the "Concept of Russia's Participation in International Development Assistance" and outlined goals and principles of national policies in this sphere. This meant that after being an aid recipient for one and a half decades Russia entered (or, re-entered, to be precise) the international donor community. The provision of international financial, technical, humanitarian, and other assistance aimed at promoting social-economic development of developing countries and resolving crisis situations caused by natural disasters and social conflicts has become an important and permanent instrument of the country's external economic and political relations[1].

The Russian government concept of 2007 stressed the need to develop a "new systemic approach to Russia's participation in international development assistance."[2] To that end, the training of development professionals – both theoreticians and practitioners – became a strategic goal. The pool of such experts in Russia is extremely narrow. Russia cannot be considered a newcomer in the sphere international development assistance. There is a rich legacy of Soviet donorship. The two decades that have passed since the collapse of the Soviet Union alienated the Russian policy community from urgent global development challenges. It was even more true with respect to an academic community – international development studies have never been taught in Russia as a distinct discipline.

In this respect the launch of the World Bank-executed program "Russia as a Donor Initiative", began in 2009 with financial support from the Department for International Development of the United Kingdom. Notably, its educational component became an important step in the implementation of Russia's systemic approach to international development assistance. Under auspices of this program two study tours were organized – one to the Institute for Development Studies of Sussex University in the United Kingdom and the other to the United States (with financial support from the USAID) – aimed at learning from the UK and the US experiences in the sphere of international development cooperation, including the experiences of the higher education institutions of both countries in teaching development studies. Finally, the group of Russian scholars – representatives of the leading national higher education institutions – Lomonosov Moscow State University, Moscow State Institute (University) of International Relations under the Ministry of Foreign

1 Concept of Russia's Participation in International Development Assistance. Approved by the President of the Russian Federation on June 14, 2007.URL: http://www.minfin.ru/common/img/uploaded/library/2007/06/concept_eng.pdf

2 Ibidem.

Affairs of Russia (MGIMO), National Research Institute – Higher School of Economics, and the Financial University under the Government of Russian Federation, developed this pilot set of lectures "International Development Cooperation" with financial support from the World Bank.

***

The history of international development assistance began more than sixty years ago: the first significant programs of foreign aid to developing countries were launched in the late 1940s and early 1950s. These programs responded to profound political changes which resulted in the bipolar confrontation that took place on the international stage in the aftermath of the Second World War. However, it would be wrong to think that international development assistance was based only on political and ideological considerations. The idea of providing aid to underdeveloped countries received wide public approval in many countries because it contained a powerful humanitarian component which allowed the fulfillment of humankind's inherent desire to help that reverberates in the hearts of many people.

The foundations of the autonomous field of knowledge called development studies were also laid down in the West at the turn of 1950s. Scholars working in this field focused on underdevelopment and sought to suggest the means for eliminating its consequences. From the very beginning, development studies took shape as an interdisciplinary field. Although economists were quick enough to take over development theory, the discipline evolved and synthesized various approaches that offered different justifications for providing development assistance (economic, political, sociological etc.). Regardless of the differences between various theoretical and methodological concepts, their approaches overlapped and influenced each other.

The world has changed dramatically over the last sixty years. The world political system has under gone significant transformation: radical changes took place in the global economy, new security challenges have emerged. The ideological motivations behind the provision of aid also changed with the disappearance of the Cold War rationale. However, fundamental reasons behind international development assistance are the same as they were in the middle of the 20th century. The more than sixty year-long development practice has clearly shown that international aid architecture has been based on three pillars: humanitarian/moral (human beings cannot and must not be indifferent to the suffering of other human beings with whom they share the Earth), political (with considerations of security in the broadest sense of this term topping the agenda), and economic interests.

However, the configuration and balance of these three pillars has changed. Some of the components have been reinterpreted. For example, the significance of countering global challenges and securing global public goods has increased substantially. This in turn coincided with the beginning of a qualitatively new stage of the evolution of international

development assistance. The last decade of the 20th century laid the foundations for an ideational breakthrough. Development cooperation shook off the geopolitical and ideological fetters of the Cold War and started exploring new horizons. Development professionals were provided with a real opportunity to define the Third World in human terms, not in mostly geographic and geopolitical terms.

Human development became one of the top priorities of international development assistance at the turn of the 21st century. The adoption of the Millennium Development Goals (MDGs) declared by the United Nations set a milestone in the history and evolution of theoretical and practical approaches to international development assistance. The international community acknowledged that development, like life and freedom, represents a fundamental natural right of human beings. In practice it meant that development was impossible without ensuring peace and security, gender equality, poverty eradication, access to health and education services, and so on.

Such a radical turn in the theory and practice of international development assistance was instigated by the geopolitical shifts, as well as by harsh criticism of aid in the last decades of the 20th century. The 1980s were, arguably, the hardest time because a lot of policymakers and experts believed that the very idea of development assistance had become outdated, while some of them called for its abandonment.

Fortunately, these debates are over. At the beginning of the 21st century the international community eventually reached consensus on aid and concluded that humanity cannot abandon this concept. There are several arguments in favor of this consensus. First, despite that fact that there were valid criticisms of international development assistance, the provision of aid has achieved clear results. Second, the remaining gap between the developed and the least developed countries, as well as the number of people in the world that are poor, undernourished, and suffer from various diseases remains too large to allow the international community to stay indifferent. Third, the rapid acceleration of globalization by the turn of the 21st century contributed to interdependent development processes in different countries and regions of the globe. That resulted in the emergence of truly global social, environmental and security challenges that can be addressed only through joint efforts.

According to the United Nations, 1.29 billion people live in abject poverty – on less than US$1.25 a day[3]. Behind these dry statistics lies a horrible picture: most of these people either live in slums or do not have housing at all. They live without access to electricity or clean water. They are undernourished and suffer from hunger. Around 800 million people (two thirds of them being women and girls) are illiterate – they are unable to read or write. This is a huge obstacle to fulfillment of their human potential, and threatens the future of the whole world. As the UN General-Secretary Ban Ki-Moon pointed out in 2011,"Literacy

3 Inequality in Focus. URL: http://siteresources.worldbank.org/EXTPOVERTY/Resources/Inequality_in_Focus_April2012.pdf

unlocks the capacity of individuals to imagine and create a more fulfilling future. It opens the way to greater justice, equality and progress. Literacy can help societies heal, advance political processes and contribute to the common good."[4]

There have been some success in illiteracy eradication, but this progress did not sufficiently embrace the poorest of the world's population. Huge problems persist in the sphere of sanitation and fighting transmittable diseases. The progress in achieving this MDG is the slowest. Three thousand children die of malaria every day. Overall, more than 500 million people are infected with malaria each year. Tuberculosis kills 2 million people every year. 99 percent of people that die of HIV/AIDS, malaria and tuberculosis, live in developing countries. The average life expectancy in some of these countries barely exceeds 40 years. Every year ten million children die under five years of age. The problem of gender equality remains unsolved in global perspective.

These problems which are endemic to underdeveloped regions are closely interconnected and exacerbate each other. This interconnectedness is illustrated very clearly on the World Bank website. For example, experts raise the question: "How does building roads reduce child deaths (MDG4, reducing child mortality)?" And then they give the following answer: Roads make health facilities more accessible to poor families in rural areas, which allows for more frequent and less costly visits for their children—plus provide better access to prenatal/postnatal care, helping to prevent infant and maternal deaths and illness. Building roads must become a component of the strategies of the donor community aimed at strengthening health systems in underdeveloped countries, and thus are a vital component in the process of achieving of MDGs.

The improvement of the situation in education (MDG 2, achieving universal primary education) will ensure the improvement of maternal health and children (MDGs 5, improved maternal health; and 6, combat HIV/AIDS, malaria, and other diseases). Educated women are more likely to ask for medical treatment and consultation during pregnancy, will breast-feed, and will seek immunization for their children. Untreated pregnancy and birth complications mean that between10 and 20 million women become disabled every year, undermining their ability to support their families. Investing in better maternal health not only improves a mother's health and that of her family, but also increases the number of women in the workforce and promotes the economic well-being of communities and countries. Fighting diseases such as HIV/AIDS can contribute to stable governance, because these diseases rob societies of their most productive workers, their educated professionals, and their political leaders. These diseases undermine economic growth and worsen social tensions. Children who lose their parent(s) to AIDS are more vulnerable to exploitation, school teachers infected with HIV cannot teach effectively, and soldiers with HIV/AIDS may not be able to protect their countries.

4 Literacy has capacity to "unlock capacity of individuals", said the U.N. Secretary-General, calling it "fundamental aspect of human dignity" in a message delivered for International Day. URL: http://www.un.org/News/Press/docs/2011/sgsm13769.doc.htm

The issues lying at the intersection of security and development recently have been gaining relevance in the sphere of development cooperation. The meaning of the term "security" has changed substantially. New global challenges made the term "national security" outdated. The more overarching term – "human security" encompasses not only military threats, but a wide range of other challenges as well. Human security has entered the vocabulary of development practitioners. Can human security be ensured without securing access to potable water, energy and food? It is hardly surprising that we have been talking more often lately about energy and food security.

This means that the provision of development assistance is a constant and continuous process that can not be substituted for by isolated financial investments and activities. Abandoning this practice would mean a negation of everything that had been achieved. Recent events can substantiate that. In the last decade, poverty reduction has been documented in almost all regions of the globe. Progress in poverty reduction has allowed for hope that it will be possible to achieve MDG1, eradicating extreme poverty and hunger. However, when the recent global financial and economic crisis broke out in 2008, this slowed down substantially progress in this sphere. The UN had to acknowledge that policies and programs aimed at hunger alleviation had ceased to bring results. During the international financial crisis a large number of people lost their jobs and were unable to feed themselves and their families. The labor market was seriously effected. This led to a substantial decrease in employment rates. Against the background of job cuts more people were forced to take low-quality, unstable and often unsafe work.

The authors of this set of lectures demonstrate that development assistance is about more than aid. Besides aid in its traditional sense many other factors play important roles in development policies and affect development, including trade, migration, capital investments, environment, and technologies. The donor community with the Russian Federation as its new, active and legitimate member must take this into account.

The authors also wanted to help their readers in understanding that aid is about more than money. How donor countries design their aid programs is as important as how much aid they give. The donor can give with one hand (through loans, credits, and investment) and take away with the other (through trade or environmental pollution). Thus, a donor country must develop a comprehensive approach to guide its aid strategy.

It is also critical to foster mutually beneficial partnerships with recipient countries, and abandon the classical "creditor-borrower" scheme. All recent High-Level Forums on Aid Effectiveness have paid special attention to this aspect.

Numerous and interconnected challenges of a globalized world and current aid architecture are reflected in the "Concept of Russia's Participation in International Development Assistance" which outlines the following priority goals: to eliminate poverty and ensure sustainable economic development in developing and post-conflict countries;

to create a belt of good neighborliness along Russian national borders; to prevent the occurrence and facilitate the elimination of focal points of tension and conflict, as well as sources of drug trafficking, international terrorism and crime, primarily in the regions neighboring the Russian Federation and so on[5].

***

This set of lectures is addressed to a wide audience. Since development studies is a multidisciplinary field where professionals with various backgrounds are needed, the authors hope that this set of lectures will be useful not only for an academic community, i.e. for teachers and students of higher education institutions, but also for professionals who participate in formulation of the foreign policy of the Russian Federation, and the staff of the ministries and agencies responsible for the implementation of Russian aid strategy.The "Concept of Russia's Participation in International Development Assistance" emphasized the need to involve representatives of the private sector. Therefore, this set of lectures can be useful for them as well.

The idea of the authors is to present the concept of international development assistance, its goals and objectives, the more than sixty-year-long history of aid programs, as well as the new challenges that the international community faces turning the second decade of the 21st century. The authors hope that this set of lectures will help find an answer to a wide range of questions: What role does aid play in international development? What lessons can be drawn from the experiences of other donors? What issues will be on top of the international development assistance agenda in the coming years of the 21st century? How to proceed in order to build an effective national strategy of engagement in international development cooperation? Which approaches and aid modalities should be used? How to evaluate the effectiveness, efficiency, and the impact of aid?

This set of lectures is structured in accordance with the aforementioned objectives.

It is divided into four parts. Part I examines the theoretical-methodological issues of development studies that remain largely a terra incognita for the Russian audience. The authors deliberately differentiated between two terms – "development" and "international development assistance". Although the issues related directly to "international development assistance" are more practical, and play a great role in the formulation of specific aid strategies, the understanding of development as a research object and a goal of assistance must help readers and students – current and future development professionals – in their daily activities in the field. Working on Part I, the authors sought to address special attention to the interdependence of theory and practice in the sphere of international development assistance.

5 Concept of Russia's Participation in International Development Assistance. Approved by the President of the Russian Federation on June 14, 2007. URL:http://www.minfin.ru/common/img/uploaded/library/2007/06/concept_eng.pdf

The most voluminous Part II examines the key issues pertaining to aid architecture. In the beginning the authors reconstruct the terminological and institutional-legal system in which international development assistance is provided currently, classify the main criteria, forms, and modalities of aid, as well as identify key international development actors. Special attention is focused on multilateral aid, the role of multilateral organizations in international development cooperation, and such new phenomena as multi-bilateral aid (earmarked/non-core financing) and trilateral cooperation.

The first introductory lecture is followed by a description of the latest trends in composition and distribution of aid flows with breakdowns by donor group, aid modality, region, country, income group, and sector. There is an analysis of those trends which hinder progress in increasing aid effectiveness. The authors develop the idea that international development assistance is a form of cooperation in which both donors and recipients (regardless of the differences in their motivation, interests, goals, and strategies) are engaged as partners. However, it is still the donors that drive the agenda. That is why most of attention in Part II is paid to donors – both established and emerging ones. An analysis is provided of commonalities and particularities of donor national strategies of participation in international development cooperation. These lectures are aimed at helping future Russian development professionals learn from the experiences of other donors. A separate lecture is devoted to Russia as an emerging donor.

Part III is entirely devoted to the practical aspects of providing assistance – management, financing, monitoring and evaluation of aid programs. This section explores a wide range of issues, such as specifics of aid management systems, planning expenditures for bilateral and multilateral aid programs, advantages and shortcomings of various aid modalities and channels of aid delivery, as well as the project-based and program-based approaches. There is a comparison of different methods of monitoring and impact evaluation. A separate lecture raises the challenges posed in extending assistance to fragile states. This task is especially difficult given the variety of both dimensions of fragility and the diverse actors engaged in the process. The task requires truly innovative approaches which take into account the specific features of this group of the most vulnerable states.

The last part, Part IV, sheds light on the provision of development assistance in specific spheres, such as support for production growth (including aid for trade), infrastructure (transport, energy, information and communications technologies), social services (education, health, water supply, and sanitation), and environment. The lectures in Part IV define the most urgent challenges that the international community faces in each of the aforementioned spheres in the beginning years of the 21st century, the main directions of assistance, as well as specific issues of monitoring and impact evaluation of programs and projects. The lectures of Part IV contain numerous practical examples of bilateral and multilateral donors' interventions in various countries.

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The authors express their hope that this set of lectures will make a useful contribution to the process of establishing the Russian national system of international development assistance, and help train highly qualified development professionals.

PART I

DEVELOPMENT AND INTERNATIONAL DEVELOPMENT ASSISTANCE: THEORY AND HISTORY

The first part of this set of lectures explores theoretical aspects of international development assistance. The authors emphasize the interdisciplinary of development studies and track the mutual influence of different approaches and concepts on each other throughout the sixty-year long history of this field. Although economics has always formed one of the key bases of the discipline, instead of an "*economic theory of development*" we are going to talk about a "*general theory of development*" that underwent a complex evolution and keeps changing and improving in response to numerous challenges of contemporary international relations, as well as changes in the developing world. The second lecture examines doctrines of development assistance, i.e. the issues which arise in the practical implementation of theoretical concepts.

Thus, Part I of the set of lectures answers two pivotal questions – What is development? Why do we need development assistance?

LECTURE №1

DEVELOPMENT THEORY AND ITS HISTORICAL EVOLUTION

Lecture outline

1. **Development theory in historical retrospective**
2. **Major schools in development studies: classical and radical paradigms**
3. **Development theory in the era of globalization: the renewal of discourse**

Scientists study development in different ways. Scholars from all fields of knowledge deal with objects in a constant process. However, the middle of the 20th century saw the emergence of an autonomous field of knowledge in the West that was addressed to developing countries, the so called "global South", and was given a specific name – "development studies". Scholars working in this new field – called "developmentalists" – raised a fundamental question: Why do some countries live in poverty while others have high standards of living? What are the means for eradicating the consequences of underdevelopment? In fact, it was underdevelopment - more that development itself – that became an object of research for the newborn discipline.

Development studies took shape as an interdisciplinary field in which a variety of different approaches coexisted and interacted with one another. This raises a legitimate question: Is it correct to talk about a single development theory? Our answer to the question is decisively positive. Scholars are unanimous in recognizing the fact that development phenomenon represents a distinctive object of research. Regardless of the differences between various theoretical and methodological concepts, their approaches overlap and influence each other.

1. Development theory in historical retrospective

The beginning of development studies was a natural product of historical process. The end of the Second World War provided a strong impetus to the decolonization process, and led western policy-makers to think of the future of underdeveloped countries.

Development theory has deep historical roots. Its origins can be traced back to the Age of Enlightenment - the era of enthronement of reason and the beginning of such concepts as social reform and economic growth. Theory in the Age of Enlightenment incorporated a belief in "virtuous" human nature and equal natural rights, an optimistic view of progress, a rethinking of the relationship between a society and its political institutions, and the idea of the West as a model for development. Over the subsequent two centuries development theory evolved within a liberal ideological framework and proved to be sought-after in certain periods of history. For example, during the First World War Walter Lippmann, an American public intellectual and political commentator, emphasized the need for action aimed at eradicating underdevelopment within the context of long-term thinking about

creating a stable world order: "We cannot turn our backs on the weak countries. We must act in order to make them strong. The central motive of a democratic foreign policy must be the modernization of the feeble and distracted nations...that is the only program of peace which really deals with the trouble."[6] The British economist J.M. Keynes wrote in 1920: "In the final catastrophe the malady of the body passes over into malady of the mind… counsels of despair and madness stir the sufferers from the lethargy which proceeds the crisis...The power of ideas is sovereign and he listens to whatever instruction of hope, illusion, or revenge is carried to him on the air."[7]

After the Second World War American liberal thinkers launched a powerful program of aid to Europe, the Marshall Plan. However, the focus was on Europe, but the former colonies were included. The need for inclusion of these regions in aid programs was driven by the logic of the Cold War. Underdeveloped countries which found themselves between two poles of power – the Soviet Union and the United States - created their own world which was named the "Third World" by French demographer Alfred Sauvy. Sauvy's idea was based on drawing an analogy between the former colonies and Tiers Etat of the French Revolution–oppressed and without civil and human rights but willing to stand up from their knees to their feet. This profound socio-psychological understanding of Sauvy's concept was soon forgotten. The Third World started being perceived as an active field of Cold War struggle between two superpowers.

The United States recognized the importance of that struggle. The development concept was launched in earnest in 1949 when President Harry Truman, while delivering his inaugural address, declared a program of technical assistance to undeveloped countries – the so called "Fourth Point". Using the word "development" four times, Truman said: "We must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas. More than half the people of the world are living in conditions approaching misery. Their food is inadequate. They are victims of disease. Their economic life is primitive and stagnant. Their poverty is a handicap and a threat both to them and to more prosperous areas."[8]

The idea was far-reaching in both depth and scope. Technical assistance, i.e. the transfer of technologies in different fields of knowledge, was meant not only to help modernize the economy, but also to reeducate people and foster Western ideals and values. The Korean War and the adoption of the Mutual Security Act in 1951 codified the priority of military aid, and hollowed out the original idea. A program of wide scope was never launched.

The logic of bipolar confrontation dominated over development theory throughout the whole period of the Cold War. It became especially clear in the second half of the 1950s when the Soviet Union also emerged as a donor. The Third World became a primary field of struggle between two superpowers after the Cuban Missile Crisis of 1962. The countries of the Third World did not acquiesce to that and tried to assert themselves as actors in world politics by institutionalizing the Non-Alignment Movement in the mid-1950s. Initially it seemed that the NAM would become a real political force capable of bringing significant

6 Lippmann, Walter. 1970. Early Writings. N.Y.: Liveright, pp. 28-29.
7 , John Maynard. 1920. The Economic Consequences of Peace. N.Y.: Hartcourt, Brace, and Howe, p. 250
8 Public Papers of the Presidents of the United States: Harry S. Truman, 1949. Wash., 1963, pp.114-115.

changes to development theory and practice. Nevertheless, this did not happen.

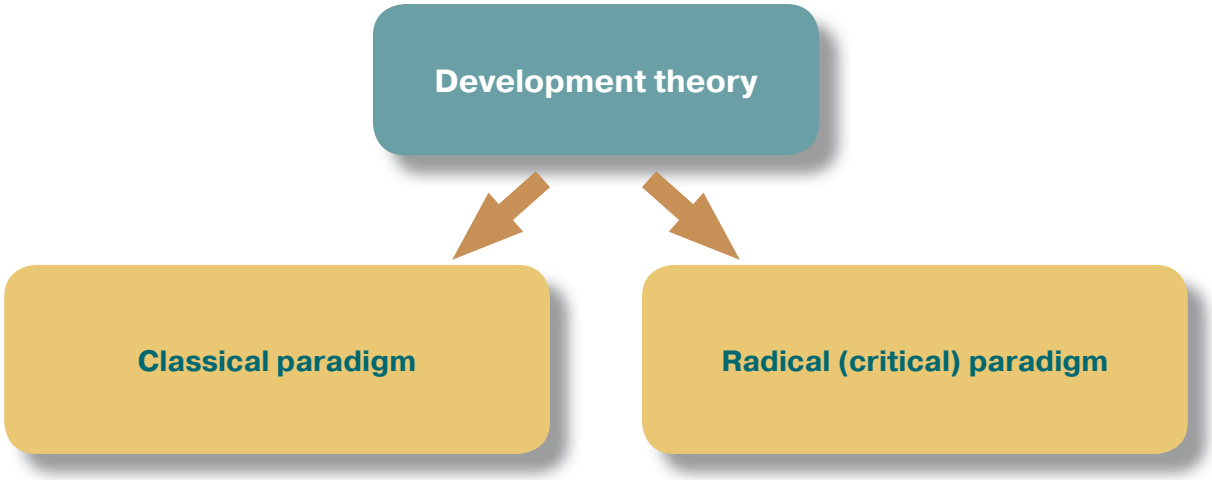
The 1980s became a period of hardship for development theory and practice. The neoliberal wave, disillusion in Keynesian, and interventionist methods led to an "impasse" in the field of international development assistance which entered the ledgers of history under the rubric "post-development". Development theory had to adapt to new realities, face the challenges of a globalizing world, and propose viable and innovative solutions to them.

Transformation of development theory and practice occurred after the end of the Cold War. In order to understand the meaning, and to assess the significance of these changes, we need to track the evolution of theory throughout the period.

2. Major schools in development studies: classical and radical paradigms

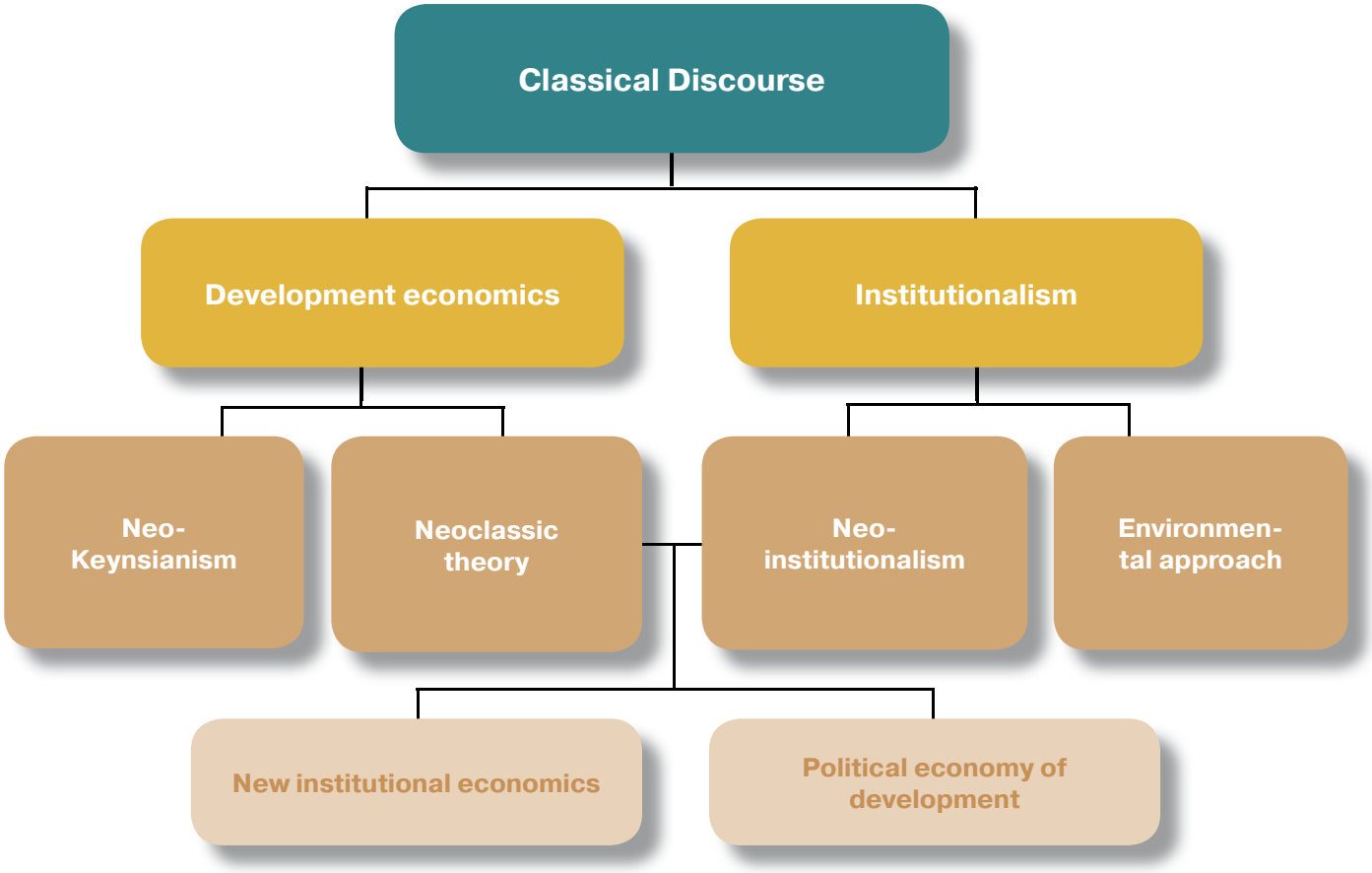
In order to understand the structure of development theory, it is first necessary to study two conflicting paradigms which are bifurcated at the upper level: the "general" (often being called "classical") and the "radical" ("critical") (Figure 1.1.).

Figure 1.1. The conflicting development paradigms



Evolution of the classical paradigm. Discourse in the evolution of the classical paradigm was launched in the late 1940s in the United States. It suggested an institutionalization of an autonomous interdisciplinary field of research which would incorporate a number of components: political - with its long-term vision of security and national interests; socio-political - with its accent on democratization and the upbringing of Western man; and, finally, economic – with its "growth-development" nexus. However, with the escalation of the Cold War, the powerful idea engrained in American liberalism did not have time to become realized. This had an immediate impact on development theory: an interdisciplinary perspective lost its attractiveness. *Development economics* took the lead.

Figure 1.2. Evolution of the classical paradigm



Economists representing an early development paradigm were convinced that the modernization of former colonies had to bridge the gap between poor countries and rich countries. Development theory of the 1950 and 1960s was marked by a linear model which assumed that modernization brought about changes in all spheres of human life and led to industrialization, urbanization, commercialization, social mobilization, secularization, enhancement of literacy and education, and establishment of modern political institutions. The proponents of this model assumed that it was sufficient to achieve progress in just one sphere of social life – the achievement of economic growth – and that this would inevitably set in motion relevant changes in other spheres. A linear model saw the modernization process as fostering unification and the gradual convergence of societies[9].

Up to the early 1970s development was conceptualized as equivalent to economic growth. The developed countries themselves served as a model. When economic growth surpassed population growth, there would be an enhancement of living standards for the entire population. The first theory to emerge within the Keynesian framework of economic growth was a theory of poverty trap (H. Singer, R. Prebish) based on the assumption that enhancement of the quality of life was offset by subsequent population growth. The 1950s and 1960s saw the emergence of different modifications of the "poverty trap" theory (H. Leibenstein's *theory of quasi-stable equilibrium*, R. Nurkse's *lack of capital trap*, H. Cenery

9 See more: Poberezhnikov I.V. 2002. "Modernizatsiya: teoretiko-metodologicheskiye podkhody" // *Ekonomicheskaya istoriya. Obozreniye* / Ed. by L.I. Borodkin. Iss. 8. Moskva: 146-168.

and A. Strout's *double deficit model*). According to the Keynesian interpretation of "poverty trap" the growth of poverty rates and social tensions resulted in political instability and created a threat of the ascension to power by radical parties and movements. "Poverty traps" result in "political instability traps". The first development concepts were elaborated to help underdeveloped countries get out of the Malthusian trap in which gains in income per person through technological advance are lost inevitably because of the consequences of population growth.

Development was conceptualized as based on the paradigm of capital fundamentalism which prioritized investments and savings and copied the experience of developed countries. Industry was seen to be the only leading sector of the economy. Import-substituting industrialization was thought to be an ideal means of modernization because it was capable of satisfying the existing demand for industrial goods on the national market. This approach would reduce the pressure on current accounts and overcome unemployment. Higher salaries in the cities - in comparison with the agricultural sector – were thought to result in real income growth for the society.

The paradigm of "capital fundamentalism" was based on the growth model developed by two economists – R. Harrod and E. Domar. They were convinced that national income growth rates were determined by investments growth rates. The issue of mobilization of capital stock for investment and instigating industrialization in Third World countries was resolved on a theoretical level with help of the "big push" model proposed as early as 1943 by P. Rosenstein-Rodan for the countries of Eastern and South-Eastern Europe. According to this concept, the inertia of the economies in developing countries could be overcome only through large capital investments from abroad.

The "*big push*" concept was a theoretical weapon of Keynesianism in development economics. Scholars drew on the idea that large capital investments would ensure modernization of newly independent countries. The "big push" concept was re-interpreted in the 1960s due to "mainstreamification" of W. Rostow's concept of *self-sustained economic growth*. Rostow identified five stages of economic growth: traditional society, preconditions for take-off, take-off, drive to maturity, and age of high mass consumption[10]. The correlation between investments and GNI growth rates was brought to the forefront of theory while social and institutional aspects of development remained overshadowed [Nureev 2010, p.45].

The increase in economic dependence by developing countries on external powers and the disillusion in Keynesianism that was so characteristic of the 1970s resulted in criticism from both the left-wing radical school (see below) and the neoclassical school which competed with neo-Keynesianism.

Proponents of the neoclassical approach demonstrated that eradication of underdevelopment could not be reduced to economic growth alone and included a wide range of other issues. Their most popular contribution to development science was a new concept of modernization – *the theory of the dual economy* (W.A. Lewis, G. Fey, G. Ranis, D. Jorgenson, S. Okawa). Development was perceived as an elimination of the dualism between the traditional pre-industrial and the modern industrial sectors of the economy.

10 In his later work "Politics and Stages of Growth" W. Rostow added the sixth stage (quest for quality of life), which focused on the spiritual development of a human being.

The neoclassical economists thought self-reliance and not foreign aid was a precondition for economic development. According to the neo-classical approach, economic growth was achievable not only within the framework of capital fundamentalism, but through structural economic reforms as well. The aforementioned scholars discovered internal factors which created potential for growth within the economies of the Third World. This was manifest progress in comparison with previously dominant views about the absence of that kind of internal potential in the developing world, and the necessary overwhelming role of external factors, including development assistance.

There was one shortcoming inherent in both the neo-classical approach and neo-Keynesianism. Both schools were unwilling to recognize the inapplicability to the Third World of the standards of living in developed societies as opposed to *institutionalism* which drew on a different methodology [Nureev 2010, p.113].

In the 1950s, the dominant discipline in development studies was economics. In the 1960s and 1970s the center of gravity started shifting towards sociology. Institutionalists insisted that theory had to focus primarily on different types of state and social structures, culture and traditions, the role of moral values in a given society, environment, and natural resources. The modernization perspective changed. The linear model was replaced by a partial model which saw as the need for, and inevitability of, the coexistence of modernized and traditional structures within a given society. This was a step toward a paradigm which assumed the possibility of multilinear dynamics[11].

The three-volume work by Swedish scholar G. Myrdal "*Asian Drama: An Inquiry into the Poverty of Nations*" became a milestone in the history of institutionalist paradigms. It demonstrated that there was a mismatch between the then existing theory of economic growth and the realities of the Third World. Myrdal saw the main cause of underdevelopment to be the under-utilization of human resources. The "drama" consisted in the fact that people in Eastern societies were not interested in work because of deeply-rooted traditions. Myrdal saw the main problem not in the growth of capital accumulation, but in providing food to the population in order to stimulate an increase in productivity[12].

The concept of "basic needs", which stemmed from Myrdal's multidimensional approach, and the issue of "human capital" which was later elaborated by T. Schultz, marked the beginning of a new stage in the evolution of development theory. Fostering the conditions for a more human life became a long-term goal and a main criterion of the success of development. This resulted in a dramatic change of development practice. In the 1970s, priority was given to fighting poverty. The concept of creating conditions for greater humanity thus reconciled and enriched different theoretical approaches.

Institutionalist criticism of the economic growth paradigm forced proponents of the neo-classical approach to focus attention on the concept of human capital. This in turn brought a new model of economic growth, a different understanding of dualism, and a revision of approaches to poverty. A significant contribution to theory was made by the works of R. Solow. His ideas brought about the replacement of a Keynesian Harrod-Domar model by a neo-classical theory of economic growth. Influenced by institutionalism, proponents of the

11 Poberezhnikov I.V. 2002. "Modernizatsiya: teoretiko-metodologicheskiye podkhody" // *Ekonomicheskaya istoriya. Obozreniye* / Ed. by L.I. Borodkin. Iss. 8. Moskva: 146-168.

12 Khudokormov A.G. (Ed.) 2009. Istoriya ekonomicheskikh ucheniy (sovremennyi etap). Moskva: Infra-M, p. 475.

neo-classical approach proposed a single analytical framework for the explanation of such different phenomena as the contribution of education to economic growth, the demand for education and health services, the age dynamics of salaries, and gender variations in salaries etc. The influence of institutionalists could also be seen in the later elaboration of the UN Human Development Index with three key indicators: life expectancy at birth; an integrative education index incorporating mean and expected years of schooling; and standard of living measured on the basis of GNI per capita. Since 1990, the UN has been publishing annual human development reports. Development started being seen not just as an enhancement of economic growth rates, but also as investments in human capital and poverty eradication.

Institutionalists, while going beyond the framework of the dominant paradigm, demonstrated that a narrow economic approach had become a "procrustean bed" of development studies and that development economics could not be the sole representative of this discipline anymore. Development proved to be a broader concept, a multidimensional one. Economics remained one of the pillars of development studies but the era of its dominance had come to an end.

The last third of the 20th century saw the further evolution of the aforementioned schools. The broadening of the research agenda was instigated by criticisms from both left and right wings. The former came from theories that evolved almost in parallel, the latter emerged later and was invoked by radical changes in the global environment.

Radical (critical) development theory. The *left-wing radical* paradigm of development was born in the Third World. Most of its modifications were formed under the influence of Marxism. There was criticism from the New Left and the neo-Marxists that reflected disillusion within the countries that perceived themselves to be marginalized as reflected in the thinking known as the "International Division of Labour". The heyday of this paradigm came in the 1960s and 1970s.

Initially, many political leaders and scholars from Third World countries regarded underdevelopment as a purely technical-economic issue. The example of the Soviet Union played a large role in that respect. Many representatives of the Third World were inspired by the successful experience of industrialization in the Soviet Union, as well as by stories about the rapid elimination of such persistent vices as illiteracy, and were optimistic about prospects for modernization in their own countries. Numerous failures in the implementation of these ideas made scholars conclude that the existing theories of development were inapplicable to the Third World.

Radical theories emerged in response to the political-economic realities of the 1970s. The growth of transnational companies made the economies of the Third World countries even less competitive. Amongst left-wing radical concepts, the most elaborated were the theory of dependency (R. Prebish, P. Baran, S. Furtado, A. Emmanuel, S. Amin and others) and the world-system approach (A.G. Frank, I. Wallerstein). These contributions to the literature focused attention on the antagonism between developed and underdeveloped countries. Their core assumption was that underdevelopment of the Third World was caused by the external forces represented by Western capital and values.

Counter-revolution in development theory. A harsh criticism of classical theory and its interventionism, in particular, was voiced almost simultaneously from the right wing. The framework for this criticism was set by the conservative wave of the second half of the 1970s and 1980s with the most spiteful invectives coming from proponents of neoliberalism. The most well-known ideologues of a "neo-classical counterrevolution" were P. Bauer, D. Lal, I. Little, H. Johnson, B. Balasa, J. Simon, J. Bhagwati and A. Kruger. Each of these scholars had his own view about the causes of economic development failures but they all shared a conviction that the development of the Third World was hindered by state interventionism. The primary cause of underdevelopment in developing countries from this perspective was thought to be an excessive economic interventionism, corruption, and a lack of private initiatives.

The crisis in development theory was aggravated further after the publication of D. Booth's 1985 article "Marxism and Development Sociology: Interpreting the Impasse"[13]. His work initiated a new discourse about the role of development under globalization. The end of the Cold War gave it a new and powerful impetus. Post-modernist approaches started gaining in popularity which facilitated the diffusion of views about the "collapse of the modernist project". Theories of international development almost ceased to be perceived as autonomous scientific disciplines. Development entered a stage that was later labeled "post-development".

Objective parameters which reflected the worsening of the situation in developing countries facilitated this counterrevolution. Scholars calculated that if the growth rates of the 1980s were to endure, Third World countries would need 150 years to achieve half of the Purchasing Power Parity (PPP) of the Western world. Most developing countries became heavily indebted. This resulted in the further "paralysis" of development theory and practice. The parameters of unemployment, the lack of housing, human rights violations, poverty etc. were worsening and aroused serious concerns.

The impasse in development was caused by four main factors: unsatisfactory results from previous experience; the widening of gaps within the Third World; post-modernist criticism and pessimism about the prospects for fulfillment of the Enlightenment dream about the emancipation of humanity; and, finally, globalization itself. The pivotal provisions of the post-war paradigm - a perception of the Third World as a monolithic, homogeneous entity; an unquestioned belief in the enlightened interpretation of progress and a possibility of reforming a human society; a perception of the state as the main actor in international relations and a conviction that it is the state that is capable of ensuring social progress - broke down under attacks from critics. The dominance of a neoliberal ideology which was codified in J. Williamson's "Washington Consensus" rolled the theory back to the problem of economic growth.

3. Development theory in the era of globalization: the renewal of discourse

Saying that international development assistance had played itself out was premature. Its positive impact on a range of development indicators was evident. However, development studies could survive as an autonomous discipline only with fundamental change.

13 Booth, David. 1985. "Marxism and Development Sociology: Interpreting the Impasse." *World Development 13* (7): 761-787.

The terminology and basic concepts had to be revised. The very object of development underwent a dramatic transformation. After the fall of the Berlin Wall the term "Third World" lost its conventional meaning. Significant differences between the parameters of development of different countries within the nominal "Third World" was so significant that scholars started talking about the "Fourth" and the "Fifth" worlds. The phenomenon of "rising powers" proved the justifiability of these views. Contemporary theory had to: link different components of the international political economy; revisit and renew the "development-security" nexus; incorporate elements of conflict studies; and start studying the cultural dimension of development. It was vital to reject the vision of development as progress towards Western values and determinism of any kind (economic, political, environmental); pay more attention to the global context, and to regard development as an endo-exogenous process. In the early 1990s the defenders of development were called counter-counterrevolutioners. Hope for the renaissance of a modernist project was put upon them.

The concept of "development as freedom" formulated by the Nobel Prize winner Amartya Sen became a bridge from development economics to a more promising –from a theoretical-methodological point of view –political economy of development. The political and civil rights of a human being for Sen represented both a goal and the main means of development. The Indian scholar demonstrated that civil society and an independent media in a democratic country had leverage on the government: for example, they can force it to take appropriate and timely measures towards hunger prevention. But nothing of this sort happens in the countries where the basic democratic freedoms are absent. Sen's works illustrated vividly the combination of neoclassical principles of scientific research (individual freedom as a primary value) with methodological elements of institutionalism (attention to the role of political institutions).

The so-called new institutional economics (sometimes labeled "modern neo-classical economics") emerged as another promising school of research, and a good example of cooperation between several social science disciplines. This theory was born in the 1970s when many schools (primarily in the United States) tried to comprehend issues that had previously remained beyond the parameters of macro-economic approaches. It attracted significant attention in the period of "post-development". New institutional economics addressed problems of traditional, political and social institutions – government, law, family etc.

Taking into account all these factors, scholars worked to forge a new development paradigm. Although they could not formulate a fundamentally different theory, they managed to choose an appropriate new framework – "sustainable development" which became the most promising theory, capable of covering the entire range of development issues.

Evolution of the theory of sustainable development. The theory of sustainable development in its current format has been in place since 1987. Its origins can be traced back to the 1960s – to a period of serious crisis for Western society which is still not fully understood by historians and sociologists. Scholars that were trying to understand the roots of this phenomenon composed different rankings of causes of this crisis, but a

scientific-technological revolution always ranked high in their analysis. On the one hand, previously unseen rates of technological development brought about dramatic social transformations in developed countries. On the other hand, the 1960s was a period of decolonization and the emergence of the newly independent states that were immediately put into the "underdeveloped" category. The scientific-technical revolution - revolutionary changes in a wide range of sciences (microelectronics, energy, mass communication) also led to a qualitatively new stage of the internationalization of the world economy. At the same time, the scientific-technical revolution could not help raising the question about the possibility of a Third World War, and further destruction of the environment. Truly global contradictions of that era resulted in forecasting prospects for social progress or global decline.

The 1960s was a time when numerous futurologist organizations emerged, including the "Club of Rome" - established in 1968. The "Club of Rome" not only introduced the very term "global challenges"' but also defined the key features. According to Italian industrialist and scholar A. Peccei – the initiator of the establishment of this informal organization – these features included: universal occurrence, identifying problems of significance for the future of the humanity as a whole, and being impossible to resolve on a national level.

The first report of a working group of the Club of Rome (written by a group of young scholars from the Massachusetts Institute of Technology) published in 1972 was entitled "*Limits to Growth*". It provoked a wide public response. According to the report, if current trends continued of population growth, industrialization, the use of natural resources and pollution, the world would approach "limits to growth" sooner or later. However, the authors thought that this scenario could be avoided by reversing these trends and creating conditions for economic and environmental equilibrium and long-term stable global development. The authors proposed a model that, firstly, could be sustained, and, secondly, would satisfy the needs of the entire population of the planet. To secure sustainability, humanity had to pursue a "stabilization strategy" which suggested limitations of population growth and of capital growth. The alarmist tone of the report attracted public attention to the issues.

Hereinafter, the working groups of the Club of Rome conducted research in which attention was drawn to specific issues. The organization commissioned reports on energy conservation, the elimination of the gap between North and South, the social consequences of revolutionary changes in techniques and technology, problems of the world's oceans, and the role of education. One of the most influential reports prepared in 1976 was entitled "Revision of the International Order". The authors (a group of scholars led by Nobel prize winner I. Tinbergen) thought that a real solution to the challenges faced by humanity could only be the closure of the gap between poor and rich countries in terms of population, GNI per capita, food needs etc.

The then prevalent "growth ideology" that took into account only the quantitative side of development resulted in a barbarian exploitation of natural resources and an exacerbation of contradictions between the rich and the poor which could lead only to destruction of the whole system. Only recognition of the need for a new, more careful type of consumption could save the situation. "Revision of the International Order" proposed –for the first time in history – specific practical solutions, including a revision of international economic

relations through establishment of supranational institutions to which all countries, and most importantly, the developing ones could delegate some of their sovereign rights concerning exploitation of natural resources, economic development and so on. According to the authors of the report, these institutions could include the World Bank, and energy and natural resources organizations etc.

The idea of sustainable development was further elaborated in subsequent reports in which the effectiveness of the whole system was thought to be guaranteed by the harmony between three components of society –its value system, its type of governance, and its economic system. The authors of those reports emphasized that no country could fulfill its efficiency potential in full unless the global world order was established. They also drew a conclusion - rather traditional for the Club of Rome - that a rejection of national sovereignty in its conventional sense would allow the world to achieve social cohesion on a global level.

"The First Global Revolution" (1991) report's focal point was an assumption that an exacerbation of contradictions between developed and underdeveloped countries could cause a global revolution. Among the contradictions identified were the differential effects of climate change which were first beginning to be understood, and the special vulnerability to food and security threats. The threat of this revolution was particularly large in the circumstance of *bad governance*. On the contrary, *good governance*, which only the world community could ensure, implied international cooperation in environmental protection, an effective system of governance on all levels, and most importantly, improvement of the inner world of a human being and the introduction of a system of universal human values.

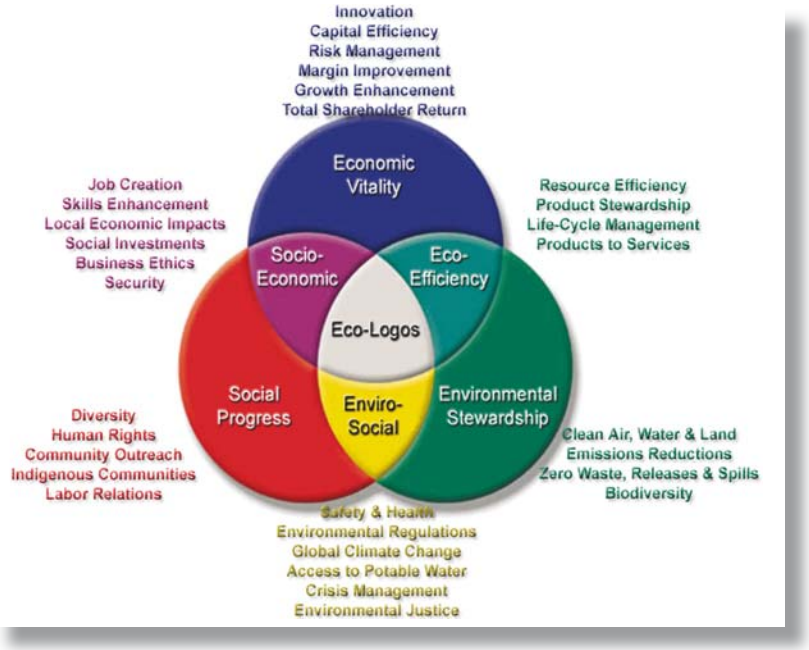
The Club of Rome and its intellectual product –the idea of sustainable development – were regarded with suspicion for a long time. There were many reasons for this – of both a scientific and a political nature. One of the most controversial parts of the discourse initiated at the time was its emphasis on the necessity for nation-states to delegate aspects of sovereignty rights. The years between the 1972 publication of "*Limits to Growth*" and the publication of "*The First Global Revolution*" in 1991 led to a more profound understanding of this theory, and the clarification and expansion of its concepts. In spite of the attempts of the scholars who collaborated with the Club of Rome to talk about global challenges and global development, the dire state of the environment remained a primary concern of their work.

That is why a theory of sustainable development was regarded as a by-product of the environmentalization of scientific knowledge. In 1987, the World Commission on Environment and Development (also known as the Brundtland Commission after its chair Gro Harlem Brundtland) published a report entitled "*Our Common Future*" where it explained in detail the meaning of the term "sustainable development", its components, and the need for fundamental change in international development policies[14]. According to the Commission's definition, "sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs." This definition contained within it two key concepts: needs, in particular the essential needs of the world's poor, to which overriding priority should be given; and "limitations" imposed by the state of technology and social organization on the environment's ability to meet present and future needs.

14 Our Common Future. World Commission on Environment and Development. Oxford: Oxford University Press, 1987.

A contemporary theory of sustainable development is a three-fold concept. It is based on an assumption that global development will be sustainable only upon the condition of balancing three interconnected components- economic, socio-political and environmental.

Figure 1.3. Sustainable development concept



Source: URL: http://www.eco-logos.net/

The economic component contests a basic principle of traditional economics – that of unlimited economic growth. The proponents of the theory of sustainable development think that achieving short-term results in satisfying the individual needs of consumers' and an increase in the profits of producers' will lead to the depletion of resources – both natural and social –in long-term perspective. Trying to find appropriate models of production and consumption, the theory suggests that using limited resources and incorporating a broader utilization of environment-friendly (nature-conservative, energy-conservative and resources-conservative) technologies is essential to sustainability.

The environmental component is aimed at ensuring the integrity of biological and physical systems. In this sense, the concept of sustainable development echoes the noosphere concept of academic Vladimir Vernadsky who envisioned – long before the Brundtland Commission–a moment when rational interactions between a society and nature would become a determinant factor.

The social component is the most voluminous and controversial within the theory, especially when it comes to its practical implementation. With respect to the preservation of the socio-cultural environment, there are numerous problems that arise. Solutions require enormous intellectual and material efforts. What is the most effective means for reducing the number of destructive conflicts on Earth? How is it possible to achieve a just distribution of goods? How is it possible to preserve cultural diversity in a globalizing world? How is it possible to create an effective system for management of these processes?

Finding solutions to all these problems requires extensive work and time. However, the fact that these issues were raised and linked to each other represented a major step forward in the evolution of development theory. The results were not long in coming: the theory of sustainable development provided a framework for influential second-tier theoretical approaches that entrenched themselves in intellectual discourse and without which it is impossible to imagine international development policies today. These include: the enhancement of the concept of human development, new interpretations of poverty, elaboration of the human security concept, conceptualization of the "security-development" nexus, formulation of participatory development, utilization of the interdisciplinarity inherent in social ecology, especially in those aspects that deal with the emergence and resolution of conflicts (from unequal access to natural resources to ethnic and religious causes), peacebuilding and an emphasis on good governance.

Human development as a 21st century priority. The paradigm of human development is characterized by a very broad understanding of goals and outcomes of development which went far beyond mere economic parameters. The concept was a legitimate outcome of the entire process of the evolution of development theory. However, its immediate origins should be traced back to the "Human Development Reports" published by the United Nations. This new approach was formulated by the Pakistani economist Mahbub ul-Haq who defined its objective very clearly – "to refocus development economics from the assessments of national income to human centric politics." The conceptual basis of this new politics was laid by the works of Amartya Sen.

The framework of sustainable development allowed the construction of a methodological basis for assessments of human development indicators in global context – not only on country and regional levels. Regularly published human development indexes were meant to draw attention to the issues of inequality, including gender inequality, and progress and problems in poverty eradication.

The process of mainstreamification of the contemporary concept of human development and its practical implementation had a clear milestone – the signing of the Millennium Declaration on September 8, 2000 at a session of the UN General Assembly demonstrated once again the interdisciplinarity of development. The Millennium Development Goals which follow from the Millennium Declaration are aimed at resolving a wide range of issues – economic, social, political, gender equalities, cultural, and environmental while recognizing their confluence and interdependence. For example, one cannot aspire to resolve gender equality issues without taking into account cultural factors, or advance human rights, while ignoring such political aspects as human security or terrorism.

Human security concept. Development theory regarded underdevelopment as a threat to peace throughout its entire history. Today the security-development nexus retains its relevance, the only difference being that contemporary theory treats "security" as a much broader and deeper concept.

The end of the Cold War instigated the emergence of a new concept in development theory – human security. This paradigm replaced previously dominant views about the prevalence of national security and declared that strengthening the capacity of people

to fulfill their human potential was a primary development goal. The concept evolved initially within a framework of a human-centric, and sociological approach, but underwent a revision after 9/11. Thus, when defining human security, one should be aware of the differences between its interpretations before and after 9/11.

The human security concept emerged as the antithesis of national security, and was defined as individual (as opposed to collective) security against threat and the prevalence of violence. Human security contained confluent components - economic, environmental, food, health, individual and political security. The current developmentalist approach interprets security as an extremely broad concept that goes far beyond containment of a military threat to the nation state. Threats to human security can come from a foreign power, from one's own government, from a tsunami, or can emerge as a consequence of the absence of access to food.

A significant shift in an understanding of the meaning of security has been reflected in the UN reports on human development since 1994. The later reports linked security to the entire set of human rights. Today human security is defined as "safety from chronic threats such as hunger, disease, and repression as well as protection from sudden and harmful disruptions in the patterns of daily life - whether in homes, in jobs or in communities" [UN –HDR-1994].

The departure from the concept of "national security" towards a broader interpretation of security seemed very natural. Given the wave of optimism after the end of the Cold War, and the series of revolutions in Eastern Europe, an assumption was made about the beginning of a "new era of democracy". Such an assumption did not look like wishful thinking. The situation changed dramatically in September of 2001 when the United States declared a global war on terror. The focus shifted back to national security, and a new concept emerged – "securitization of development".

Securitization of development in current theoretical discourse. Conflicts remain one of the most controversial issues within the human security concept. It is widely recognized that state fragmentation leads to chaos and underdevelopment, and that these phenomena can have a spillover effect. Thus, development assistance must include efforts in conflict resolution and stabilization. Opponents of this approach raise objections: if you deal with society and economy uncontrolled by the state and ruled by the new entrepreneurs (often supported by militias, narco-dealers and terrorists) – who will render assistance?

These issues of contemporary development theory and practice are epitomized by a concept of "fragile and conflict-affected states". After the terrorist attacks of 9/11, the political elites of Western countries, and of the United States in particular, linked the problem of weakness of state institutions with international terrorism and saw failed states such as Afghanistan and Somalia that were labeled "fragile" within the developmentalist interpretation as one of the most important sources of global threats to national and international security.

The doctrine of aid to fragile states has undergone significant transformation in the early years of the 21st century. Initially, development theory and the practice agenda were dominated by discourse on good governance. Experts were convinced that in developing countries the structural reforms of the 1980s and 1990s did not bring about the expected

positive results mainly due to the absence of efficient state institutions. Donors were encouraged to demand conformity to Western, liberal democratic standards of governance (rule of law, accountability, transparency, political participation of civil society) and stop aiding non-compliant countries. However, this approach was soon understood to be counterproductive: conflict-affected states (even upon the condition of an efficient and effective peace process) could not meet the criteria of good governance. By the mid-2000s, it was clear that from the good governance point of view, the most problematic countries were lagging the most behind in achieving the Millennium Development Goals. Their progress towards MDGs was possible only if aid to difficult (and fragile) partners was made a strategic priority for rendering international development assistance. This influenced experts to recognize that the reconstruction of a failed state was a precondition for securing peace. As a result, analyzing the trade-offs between peacebuilding and statebuilding became crucial for development theory and practice. Since then, peacebuilding and statebuilding have been regarded as mutually complementary processes[15].

Relationship between "development" and "democratization" concepts: good governance. The process of developing effective approaches toward strengthening fragile states led scholars to one of the most complicated issues of trade-offs between economic development and political modernization, and the process of democratization. As the sixty-year long history of international development cooperation has shown, economic development itself could not replace traditional institutions with a particular model of political system. A linear drift towards Western democracy simply did not occur. The best example of this circumstance might be modern China – a country which has been growing economically at double-digit rates. According to previous theories of modernization, China must have become a democracy a long time ago. However, little changes: human rights in China are not guaranteed. The mass media and the Internet are still kept under tight control by the government and the environment is at risk.

Recently we have seen another striking example. The Arab Spring revolutions showed that an absence of changes in the political realm threatens sustainable development and human security. Even if the direct relationship between economic development and democratization does not exist, the link between these processes is evident. Contemporary discourse seeks to establish this link by incorporating a "good governance" concept into theory.

There is no universally agreed upon definition of this concept of good governance. Depending on the context, its focus is oriented towards different dimensions of social development. Development theory has seen the emergence of a certain consensus about key features (as well as goals) of good governance. In the first place, it defines – and ensures – human rights protection, the rule of law, political pluralism, transparent and reliable public institutions, an efficient public sector, access to information and education, political literacy and the right to social activism within society, equality for all, sustainable development and commitment to human values (respect for individual and property rights, religious and ethnic tolerance etc.). Governance is considered "good" when political institutions are capable and willing to ensure the fulfillment of the human right to development and

15 See more in: Rocha Menochal, Alina. 2010. "Statebuilding for Peace": A New Paradigm for International Engagement in Post-Conflict Fragile States? EUI Working Paper, no. 34, Florence.

a humane society. This calls for assisting poverty eradication and creating the conditions for a decent life for all members of society (fulfillment of the right to medical care, basic housing and nutrition, quality education and personal security).

A clarification of this concept was given in 2000 by the United Nations Commission on Human Rights which linked good governance to sustainable human development. Transparency, accountability, responsibility, social participation in the political decision-making process, and an understanding of population needs were all declared principal features of good governance. Since a right to development – in its broadest sense – is the main criterion of good governance, the potential for establishing good governance was found in the spheres of society that create conditions for a fulfillment of that right. Theorists identified four key spheres: establishment of democratic institutions as avenues for the public to participate in policymaking; service delivery - guaranteed access to education, health and food; efficient legislative and law-enforcement activities; and anti-corruption which included creating mechanisms of information sharing, and monitoring a government's use of public funds.

Political modernization remains one of the pivotal questions in current theoretical discourse. International forums of the last two decades have established high standards and goals for human development. However, scholars started discussing once again whether or not the world would be able to achieve sustainability without further democratization that would encompass all levels of the society.

Participatory development. The need for a larger involvement of the poorest nations in the development process became evident at the turn to the 21st century. This approach is not new either. It emerged in the 1970s as an important component of the "basic needs" concept, but gained a broader interpretation in the last decade. Participatory development became a democratic alternative to a previously prevalent concept of "top-down development".

The fundamental message remains the same. The recipient country should not be just a target of the policies of donors. The effectiveness of a development project in any given region will be much higher if local agencies take part in a project and its program implementation along with external actors. Some proponents of the participatory development concept highlight the importance of joint planning and program management. In this kind of joint effort, donors not only take into account local development priorities but try to avoid imposing their own. Another key component of participatory development is a wish to promote the initiatives of local populations and to let them feel a sense of responsibility. Some development specialists emphasize the epistemological and practical significance of the mutual learning process and of the exchange of knowledge which can help participants understand each other better. Sometimes, participatory development is given an even broader interpretation and is regarded as having a transformative potential: the idea is that significant social changes can occur only if different opinions are taken into account.

Participatory development did not avoid criticism. Its opponents point mainly to the fact that it is a slow and expensive endeavor. The lengthy process of coordination and seeking consensus can hinder real deeds. Some objections are raised about the purported tendency to treat all societies invited to cooperate as identical. Critics like giving an example of the

gender equality problem and highlight the differences in the role of women across the global South. The same problem arises with respect to the societies with other class and caste sub-divisions.

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To summarize, regardless of criticisms, development theory has definitively asserted itself as an autonomous research discipline in the last six decades. It has undergone considerable changes initiated by the analysis of experiences from its practical implementation. The question about how the international donor community tried to incorporate theoretical concepts in actual development assistance programs is going to be analyzed more thoroughly in the following lecture.

SELF-CHECK QUESTIONS

1. Please, describe the main stages of the evolution of general development theory.
2. Please, recite key concepts of traditional (classical) development theory. What were the advantages and shortcomings of each of them?
3. What is a left-wing radical development theory?
4. What, in your opinion, led development theory to an impasse?
5. What are the main components of the sustainable development concept?
6. What is participatory development?
7. What are the key provisions of the human development concept?
8. What is the human security concept? In which way is it different from the traditional interpretation of security?
9. Which factors made aid to fragile states an overriding priority for international development assistance?
10. What is good governance? How is good governance linked to democratization?

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LECTURE №2

EVOLUTION OF DEVELOPMENT ASSISTANCE DOCTRINES

Lecture outline

1. **Criteria for periodization of development assistance doctrines**
2. **Development assistance as an instrument of economic growth (late 1940s – 1960s)**
3. **Dual target: promotion of economic growth and poverty reduction (1970s)**
4. **Development assistance as an instrument of structural adaptation policies (1980s)**
5. **Transformation of development assistance doctrine (2000s)**

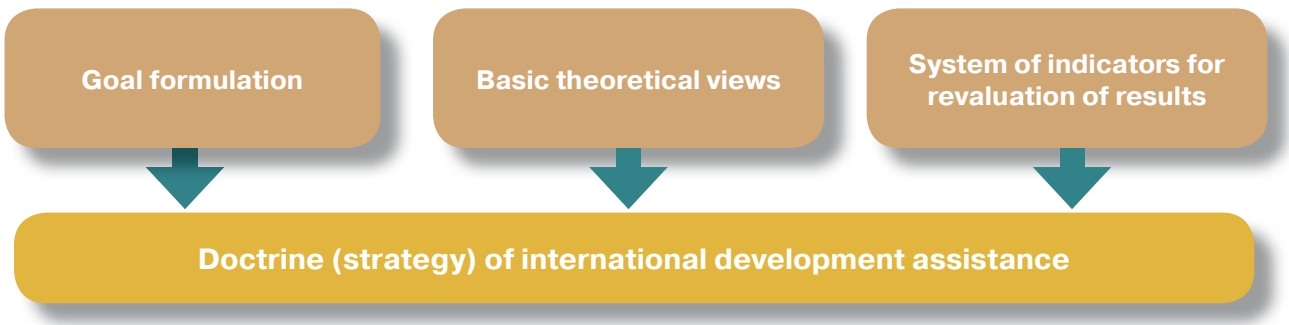
This lecture examines the significant transformation of international development assistance doctrines throughout the entire history of their evolution and, in particular, the last two decades. It is important to point out that by "doctrine" we mean the general principles of practical aid policies formulated by the international community. To avoid terminological confusion, we will use a term "strategy" with respect to policies of particular donors – both individual countries and multilateral organizations.

Which interests and motives guided donors in the process of formulating strategies of international development assistance? How did the changes in their motivation influence the practical implementation of aid programs? This lecture answers these and other key questions.

1. Criteria for periodization of development assistance doctrines

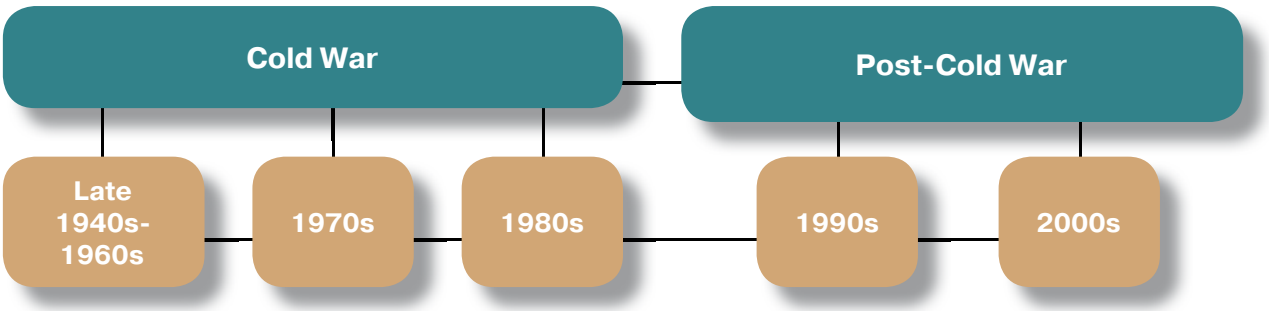
Development assistance doctrines were always determined by a combination of three components: goals, dominant theoretical views, and the system of agreed upon indicators for evaluating the effectiveness of aid programs [Tarp 2000]. Aid strategies vary. However, any donor takes into account the current environment in world politics and reacts to its challenges. No donor can ignore the theoretical mainstream in development studies, or the need to coordinate its activities with the recipient countries and other donors (Figure 2.1).

Figure 2.1. Factors that influence the doctrines (strategies) of international development assistance.



The aforementioned factors facilitate the creation of a generic picture of the evolution of aid doctrines. While relying on the theoretical framework, and taking into account that development aid, as mentioned in the Introduction, is based on the balance of three elements (political, commercial and humanitarian), we propose a two-level division and identify several stages in the evolution of the doctrinal basis of development assistance policies (Figure 2.2).

Figure 2.2. Stages of the evolution of development assistance doctrines.



The division at the first level is based on the political considerations. The second level is constructed in accordance with the dynamics of change in economic and social-political aid doctrines. To avoid a methodological fallacy within the proposed scheme, it is important to provide some clarifications.

During the Cold War development assistance was an instrument in the struggle between two superpowers for the Third World. As opposed to the policies of open confrontation (instigation of conflicts on the periphery of the bipolar world or provision of military aid) the granting of development assistance belonged to a category of more delicate and intelligent methods of carrying out this struggle. Economic considerations played a secondary role at the time.

An examination of national aid strategies proves that point. For example, the pilot project of international development assistance – the bold and innovative Truman's "Point Four" – was approved by the Congress only as one of the components of the Mutual Security Act of 1951.

The same trends were evident in the strategies of other donors. For example, throughout the entire Cold War period the national aid strategy of the West Germany was based on the Hallerstein doctrine which conditioned aid upon non-recognition of the East Germany.

Another good example of prevalence of the political-ideological rationale of the Cold War, and a shift towards pragmatism after the fall of the Berlin Wall, is the Chinese development assistance strategy that is now labeled as a strategy of "silent entrepreneurship". China is a non-member of the Organization for Economic Cooperation and Development (OECD) and its Development Assistance Committee (DAC). China acts to a large extent independently. China, especially after the split with the Soviet Union in the late 1950s, sought to become a leader of the Third World. In the 1960s, in an attempt to create a positive image in the Third World, the Chinese added "diplomacy without gloves" in the form of technical assistance programs in the textile industry, in agriculture, and in health. By the late 1970s China provided aid to 70 countries. The situation started changing after the signing of Shanghai Communique in 1972, and the subsequent establishment of diplomatic relations between

the PRC and the United States in 1979. Since then, ideology has been gradually replaced by pragmatism. Development assistance was reoriented towards the resource-rich African continent. By 2000 China had financed 640 projects in 47 African countries [Sorensen 2010, p.189].

The end of the Cold War marked the beginning of a qualitatively different stage in the evolution of development assistance. While the political component of aid remained, and the economic motivation strengthened, the end of a bipolar confrontation allowed donors to define the Third World in terms that were human as opposed to political. Development was now perceived not only as economic growth, modernization or poverty reduction (it remained an important aspect in itself though), but as the process through which people get rid of all the forms of dependency – social, economic or political, and get opportunities to fulfill their human potential.

The second level of the analytical scheme makes it possible to track the evolution of development assistance doctrines in greater detail. We link its stages to the decades of its sixty year history, although it can be done only figuratively because paradigm shifts did not occur in one day. It is important to understand that qualitative doctrinal changes were brewing in the earlier periods. The process of formulating practical approaches was always overdue.

2. Development assistance as an instrument of economic growth (late 1940s – 1960s)

This period was marked, in particular, by laying the institutional basis for foreign aid and in particular for development assistance. The United States set the tone: implementation of the Marshall Plan and programs of technical assistance to underdeveloped countries required the establishment of new governmental institutions that served later as models for other aid agencies – both national and international. By the beginning of the 1960s, similar institutions had been established in West Germany, Canada, Sweden and Japan. Being forced to adapt to post-colonial realities, the United Kingdom and France changed their organizational and legal principles for interaction with their former colonies. In France, the Ministry of Cooperation was established in addition to the French Development Agency. In 1960 Belgium, France, the United Kingdom, Germany, Italy, Canada, Portugal, the United States and the EEC established the Development Assistance Committee within the Organization of European Economic Cooperation (founded in 1948). The OEEC was reorganized in 1961 into the OECD – the Organization for Economic Co-operation and Development. The Bretton-Woods institutions also shifted from providing loans to European countries into assisting underdeveloped regions. For this purpose the International Development Association (IDA) was established within the International Bank for Reconstruction and Development (IBRD). On 22 November of 1965 the United Nations Development Programme (UNDP) was founded with the merger of the Expanded Program of Technical Assistance or EPTA (established in 1949) and the United Nations Special Fund (established in 1958). The provision of grants to developing countries became a primary mission of this agency [Kapitsa 2011, p.76].

The institutionalization of aid occurred with the active participation of developing countries which were convinced that the former metropoles were responsible for their underdevelopment and insisted on revisions to postwar international trade and finance arrangements. The proactive position of the Third World countries contributed to the establishment in 1964 of The United Nations Conference on Trade and Development (UNCTAD). In 1966, the United Nations Industrial Development Organization (UNIDO) was created to facilitate the industrialization of developing countries.

This period was marked also by laying the foundations for national aid strategies. The link was clear from the beginning between the national interests of donor countries and their aid policies. In this respect the implementation of the Marshall Plan by the United States serves as a good example. The Marshall plan covered not only the European countries but their overseas territories as well. Whereas the American aid to Europe was dominated by ideological and geopolitical considerations, and was spurred by the expansion of communism's sphere of influence and the presence of the Soviet troops close to the borders of European capitalist countries, the aid provided to the overseas territories of leading European countries was a totally different story. Here, the American government and business community were driven by a desire to gain access to strategic natural resources, mainly in Africa. The "Point Four" program was declared to be a project covering the whole globe but it actually worked very selectively. The technical assistance programs focused on the countries of high geopolitical and geostrategic importance, such as Iran, Korea or Taiwan.

Unlike the United States and West Germany, the industrial states of Europe, mainly the United Kingdom and France, emphasized moral and humanitarian aspects of aid to former colonies, as opposed to political motives. However, the priorities behind their official rhetoric were quite clear: promotion of economic and commercial interests, preservation of access to strategic resources, and expansion of trade markets for exporting their goods topped the agenda.

The process of institutionalization of aid and development assistance practice reflected dominant theoretical views of that time. Early theory saw development as equivalent to economic growth. Eradication of underdevelopment was associated with modernization of the economy through industrialization. Foreign investments into the economies of underdeveloped countries, aimed at triggering the mechanism of the "big push", was expected to boost growth rates and GNI. Industrialization had to be initiated by the government - in line with the then-dominant Keynesian doctrine of regulated economy. In most cases, the state received most of the aid, initiated and often implemented modernization programmes. Significant resources were allocated by both bilateral donors and multilateral organizations which got engaged in this process. The first group of experts, established in 1951 by the UN Secretary General with a purpose of providing a detailed assessment of the development needs of countries, recommended that donors increase financial aid up to US$ 5 billion a year. According to experts, that would allow the achievement of a 2 percent increase in GNI in underdeveloped countries[16].

The theory of economic growth which provided the conceptual framework for the first UN international strategy of 1961 set three confluent goals for the international community

16 Browne, Stephen. 1990. Foreign Aid in Practice. London: Pinter, p.45/

and recipient countries: 1) annual economic growth rates of not less than 6 percent; 2) GNI growth rates which exceeded population growth; and 3) diversification of the economies for the purposes of increasing efficiency and stability[17].

Since the pivotal idea of international development assistance from the late 1940s through the 1960s was to ensure self-sustained economic growth, a system of evaluation of aid effectiveness focused on the pairing "aid –economic growth". GNI growth rates in recipient countries served as the main indicator of aid effectiveness.

The results of the first UN development decade demonstrated that, in spite of high rates of economic growth in many countries, GNI per capita growth rates were negative. Economic growth did not lead to an increase in wealth and living standards for the majority of the populations in underdeveloped countries. An acknowledgement of this fact put an end to the dominance of the capital fundamentalism concept based on the idea that economic growth was driven by capital accumulation.

3. Dual target: Promotion of economic growth and poverty reduction (1970s)

In the 1970s a process for the formulation of aid doctrines started being influenced by concepts of dependency that denied the utility of cooperation between the poor countries of the South and the rich countries of the North. According to their proponents, all forms of cooperation in this context resulted only in a further enrichment of the rich countries that exploited the poor ones and siphoned off their resources. In order to avoid exploitation, it was necessary to focus on the internal sources of development and foster mutually beneficial South-South cooperation. These ideas reoriented development towards more intensive utilization of internal resources and implementation of import-substitution strategies aimed at achieving self-reliance in food and consumer goods.

One of the most important changes in development assistance doctrine concerned agriculture. The beginning of the 1970s was marked by a world food crisis which automatically increased the significance of this sector. In earlier periods agriculture had been regarded as a passive sector that had not been covered by the modernization efforts of the state. The only role for agriculture was to create the conditions and ensure resources for industrialization. By the beginning of the 1970s, however, agriculture was assigned a role of proactive and equal partner of the modern (industrial) sector. Economists and politicians finally paid attention to the development of rural regions which had high concentrations of the poorest.

This became a time of elaboration for programs of integrated agricultural development aimed at providing social, productive and infrastructure services adapted to the needs of specific regions. These programs also included granting financial and technical assistance to small businesses. Special attention was given to the development of labor-intensive enterprises in rural regions aimed at increasing employment and reducing the level of marginalization of populations. Agricultural reforms were also launched in some countries in order to provide farmers with the means for production. It was assumed that such measures would allow small entrepreneurs to modernize production. Thus, unlike industry,

17 United Nations Development Decade. A Programme for International Economic Cooperation. URL: http://www.un.org/ga/search/view_doc.asp?symbol=A/RES/1710percent20(XVI)

where the modernization process was carried out "from the top" with the state playing a key role in mobilizing resources, the modernization of agriculture had to be implemented "from the bottom" by stimulating initiatives by the masses.

During this very period the concept of "basic needs" acquired the status of an official doctrine. In June of 1976 the International Labour Organization identified the two most important components of human basic needs: 1) the family's minimum needs for nutrition, clothing, furniture and housing; and 2) basic essential services, primarily provided for, and consumed by, the community such as clean water, sanitation, public transport, health and education. The ILO's strategy assumed that annual growth rates would exceed 6 percent, and favored implementation of wealth redistribution in the process of economic growth[18].

The change of sector priorities in economic policies occurred simultaneously with a change of economic paradigm: a shift from centralization and concentration of power in state institutions to the strengthening of private businesses at the level of rural communities and cooperatives. Since the development agenda was characterized by a certain dualism – economic growth plus poverty reduction (with the dominance of the latter) – theoreticians sacrificed the criteria of economic effectiveness, defined as production profitability, for the sake of social effectiveness. Following the recommendations of experts, state enterprises shifted to the production of socially significant goods which were sold to the poor population at subsidized prices.

In the 1970s another significant change of aid doctrine occurred: donors started paying attention to the informal sector of the economy in developing countries[19] as more dynamic, promising, and discriminated against by the state.

A very important issue within the context of fighting extreme poverty was inequality, both in income and in access to production assets. It was often the absence of production assets – land and means of production – that pulled the farmers into a poverty trap. After a remarkable speech by the World Bank President R. McNamara in Nairobi (Kenya) in 1973, the focus of world public opinion and policymakers shifted to "the poorest 40 percent" of the world population, most of whom lived in rural regions. An increase in living standards for these people was possible only through improving their living conditions and meeting their basic needs. The report "Redistribution with Growth" prepared under the auspices of the World Bank proposed a strategy for raising living standards of the poorest without lowering income and living standards of other inhabitants of the Planet[20]. It was asserted that this could be achieved by using the largest part of new income for improving the lives of the poorest through investments into education and health, technologies and infrastructure, and creating conditions for capital accumulation by small businessmen. It was the first time that the idea of pro-poor growth was introduced which would facilitate increases in employment rates, labor productivity and income.

Thus, two main vectors of aid doctrine transformation were co-directional. Moreover, they served the interests of the major donors who revised their national strategies at the turn of the 1960s and 1970s. The greater visibility of proponents of the dependency concept,

18 International Labour Organization (ILO). 1976. E*mployment, Growth and Basic Needs: A One World Problem*. Geneva.

19 The informal sector is defined as complex of small businesses and economic activities that are carried out by households or individually, primarily, in the service sector.

20 Chenery, H., M. Ahluwalia, C. Bell, J. Duloy, R. Jolly. 1979. Redistribution with Growth. New York: Oxford University Press. URL: http://documents.worldbank.org/curated/en/1979/03/1559960/redistribution-growth

and the strengthening of the political positions of the Third World, influenced aid doctrine. Developing countries demanded stable and just prices for exported goods, free access of their manufactured goods to the markets of developed countries, and international financial and technical assistance. In reality, this meant supporting import-substituting industrialization and an implementation of measures aimed at creating favorable conditions for trade. Such an approach aroused concerns in the donor community who were concerned that an import-substituting industrialization would result in the growth of protectionism and have a negative impact on international trade [Kapitsa 2011, p.76]. The re-orientation of major donors, primarily the United States, France and the United Kingdom, towards helping the poorest populations was in line not only with political and the humanitarian goals, but also with the economic motivations of their aid policies.

A shift of focus from economic growth to poverty reduction changed the views of donors on aid modalities. Acknowledgement of the fact that growth itself had not led to the improvement of living standards made them refocus their attention from the macro- to the micro-level. The aid doctrines of the 1970s began to take into account demographic factors and track country-to-city migration flows. In 1969, the ILO World Employment Program was launched. This program enshrined the improvement of living standards across poor populations through ensuring employment and became an official development assistance priority.

Development assistance became more targeted. Budget support aimed at achieving general and vaguely defined development goals was replaced by financing sector small-scale projects, primarily in the health, education and water management sectors. This shift was reflected in the policies of the World Bank and the USAID. Transformation of their strategies could be observed in two dimensions of development assistance. First, they shifted from financing projects in energy, transport and telecommunications to financing social assistance to agricultural sector development, including construction of housing, and strengthening health and education systems. Second, they started emphasizing direct investments into poor populations and technical assistance projects (supply of goods to undernourished and hungry people, programs of mass vaccination of children, illiteracy eradication campaigns among the adult population, lending to small farmers). "Packages" of development aid became integrated: they comprised both capital investments and technical assistance.

Evaluation practices also improved with the introduction of a range of new indicators. Donors started using (along with GNI) data on the inter-sector and in-sector balances, employment censuses, household surveys, complex assessments of the agricultural and the informal sectors, and demographic indicators. Diversification of evaluation parameters was evident, but they had an important shortcoming. Each parameter was evaluated autonomously; the confluence and interdependence of parameters were hardly taken into account. Nonetheless, incorporation of new social-economic indicators into evaluation systems had a great practical significance. For the first time it became possible to assess the distribution of income between various groups within a population.

4. Development assistance as an instrument of structural adaptation policies (1980s)

"Lost decade". The dire macroeconomic situation in the Third World countries in the 1980s called for a revision of economic policies. Most developing countries had accumulated colossal external debt. Given the unfavorable conditions on the world markets a sharp decrease occurred in export income due to the economic crisis of 1982-83, and an increase in the cost of debt servicing occurred due to the increase in interest rates that contributed to furthering the global debt crisis. At the beginning of the 1980s, the poverty issue was aggravated anew against the background of a decrease in economic growth rates after the relatively successful 1970s.

The spirit of liberalism that had dominated traditional economic theory since the beginning of the 1970s took over development theory as well. Influenced by a neoliberal doctrine, developed countries started reducing the role of the state in the economy and began cutting budgets. This resulted in a considerable reduction in the amount of aid to developing countries. Further, donors started conditioning aid upon the willingness of a recipient country to implement radical market reforms.

The World Bank and the International Monetary Fund started elaborating programs of stabilization and structural adaptation for each country. Recipients were required to open their national economies, privatize state property, reduce public spending, shift from an import-substitution to an export-oriented strategy, and to make relevant changes in trade policies in the form of reducing of protectionist tariffs.

These trends were observed not only in the policies of the multilateral agencies, but also in the national strategies of bilateral donors as well. A good example in this respect was Denmark. Denmark's development policies were labeled "humanitarian internationalism" because it traditionally prioritized the needs of recipients. In particular, Denmark financed those industrial sectors in developing countries that contributed to the production of goods for export. The volumes of Danish aid diminished considerably in the first half of the 1980s. In 1987, representatives of the left-wing parties in the Danish parliament managed to force a significant increase in development finance (up to 1 percent of GNI by 1992, i.e. doubling its aid levels). However, in line with mainstream theory and practice of the 1980s, and taking into account solidarity with other donors, the Danish government specifically identified the necessity of economic liberalization for African countries in the Action Plan for Danish Aid of 1987. Although the Danish approach to international development retained its special features, the plan reflected a significant shift in these policies from "recipient preference" to tying of aid [Lancaster 2007].

The 1980s, known for its pro-market and anti-state discourse, were marked by a willingness to put aside official development assistance and replace it by private investments. However, a rejection of development assistance was impossible for moral and many other reasons. First, foreign creditors – both state and private – had a lot to lose: the gross external debt of the Third World countries grew from US$889 billion in 1983 to US$1 trillion 306 billion in 1990 (excluding the debt servicing costs which amounted to US$161 billion a year)[21]. Second, risk-averse private corporations were not interested in investing in African and Latin American countries with unstable social-economic situations.

21 Toye, John. 1993. Dilemmas of Development. Reflections on the Counter-Revolution in Development Economics. 2nd Edition. Oxford: Blackwell Publishers. p.225.

The issue of accumulation of external debt by developing countries became especially challenging in the 1980s. Initially, foreign creditors, including multilateral agencies, saw this issue as a temporary nuisance because the prices for commodities – the main export article in many low-income countries - were growing by 12 percent a year on average throughout the 1970s. At the beginning of the 1980s, after a sharp fall in commodity prices, Third World debts were restructured. Multilateral lending agencies and bilateral donors counted on the amelioration of trade conditions for borrowers, and continued to provide new concessional loans.

Internal factors also played an essential role in debt accumulation. Many countries lived beyond their means. They permitted large trade and budget deficits regardless of their low level of savings. New loans were not always used for making investments with the high returns which were necessary to service the debt. The loans did not bring about expected results due to weak governance and careless selection of projects by both donors and creditors. Droughts, floods, civil conflicts, inadequate economic policies and corruption aggravated the problem. Loans were often used only for servicing of previously accumulated debts.

In the mid-1980s, the governments of the Western creditor nations made a decision within the Paris Club about restructuring of accumulated debt. In reality, this meant rescheduling of payments and the continuation of the accumulation of interest. As a result, the nominal cost of loans increased. In 1988, members of the Paris Club acknowledged that some of the loans would never be repaid. The problem remained unsolved.

The 1980s, that followed after a relatively fruitful (from a developmentalist perspective) 1970s, proved to be a "lost decade". This can be explained by two factors. First, the world debt crisis of 1982-83 triggered an economic crisis in the most heavily indebted of developing countries. As a result, the influx of capital needed for sustaining high economic growth almost stopped. Second, the development paradigm underwent a radical transformation. A replacement of Keynesianism by neoliberalism and an elaboration of national strategies in line with provisions of the Washington Consensus resulted in mechanical copying of economic policies of the developed nations without taking into account the local development contexts in the Third World countries.

It is hardly surprising that this decade saw the emergence of a critical attitude toward development assistance as such. The criticism was two-fold. First, it emphasized the dependence of certain states on foreign aid that allowed them to abandon the quest for sources of growth within their national economies. Aid that was meant to serve as a temporary instrument and to ensure a "big push" started acquiring the status of being an integral component of national economic systems which, in its turn, formed a sort of neocolonial dependency. In fact, in earlier periods, especially prior to the 1970s, allocation of aid in the form of direct budget support led to a money drain and to a misuse of budget resources. Each bureaucrat at any level of governance sought to get his own slice of a free pie. That is why those who really needed aid got only crumbs.

Having analyzed the results of stabilization and structural adaptation programs of the first generation as implemented by the World Bank and IMF, international organizations had to make serious revisions. The programs of a new generation were meant to be "with a human face".

The 1980s also saw a significant proliferation of the collection of statistical data. In addition to previously used criteria for evaluation of aid effectiveness based on the employment, industrial and agricultural production, and population censuses, policy-makers and experts got access to the statistical data on households and the distribution of income and spending between various family members. The Living Standard Measurement Survey methodology elaborated by the World Bank in 1985 laid the foundations for a complex data system on poverty that was improved later and became an instrument of international development practice.

Aid fatigue and contours of new approaches (1990s). The end of the Cold War eliminated the geopolitical rationale which had determined significantly the behavior of donors. This had both positive and negative consequences. The fatigue of creditors and donors that had manifested itself in the 1980s was complemented by their disorientation: it seemed that the very reason for providing aid did not exist anymore.

The last decade of the 20th century became a period of preparation for a transformation of development assistance. It did not bring any significant conceptual innovations: the ongoing discussions about the relationship between the market and state regulation within general economic theory hindered the evolution of an autonomous development theory. For aid doctrine and donors' strategies, the 1990s became a time of important initiatives based on the theoretical approaches which had been initially formulated in the past. These initiatives laid the foundations for new international development policies of the first decade of the 21st century.

The de-politicization of development assistance had a long-lasting impact on the behavior of the donors. They became more careful in selection of recipients, modalities and terms of aid delivery. As during the previous decade, donors still perceived development assistance as an instrument of structural adaptation and used input and output conditionality more often. As a result, there was backsliding both in goal-setting and aid modalities in comparison with the 1970s. Aid was no longer considered to be a means to eradicate underdevelopment and build import-substituting economies. Issues of poverty and equality had been marginalized for almost two decades (a trend that began to reverse itself only at the end of the 1990s). The 1990s also saw a shift of focus from relatively small-scale individual projects towards financing sector programs. The channel of delivery also changed – from individual recipients – rural communities and small producers – to public institutions with a renewal of direct budget support [OECD-DAC 2011]. Aid doctrine was based on the concept of an "open economy" and prioritized foreign direct investments.

It was becoming more and more evident that the aid doctrine based on the Washington Consensus had not brought about the expected results. An analysis of the results of structural adaptation policies in 36 developing countries showed that in most of them annual economic growth rates averaged 0.0 percent over 1991-1995 while in the countries that rejected programs of the IMF they exceeded 1 percent. The countries of Sub-Saharan Africa that took part in these programs experienced a reduction of growth rates of GDP per capita of 0.3 percent per year throughout the same period [Kapitsa 2011, p.82].

The social consequences of structural adaptation policies were also disappointing. In 1986-1996 per capita education expenditures decreased 0.7 percent a year on average. Per

capita health expenditures grew 2.5 percent a year – at a significantly lower rate than in the countries that did not participate in programs of structural adaptation. As a result, African countries that had participated in these programs lagged behind other developing countries in almost all aspects of social development. In 1995, the adult literacy rate was 66 percent for men and 47 percent for women. Only 61 percent of boys and 57 percent of girls of school-age went to primary school. In 1990-1997 only 44 percent of populations had access to clean water; 31 percent of children under 5 years of age suffered from undernourishment. In 1997, infant mortality reached 17 percent [Kapitsa 2011, p.82].

During the last decade of the 20th century debt relief became one of the main modalities of multilateral development aid. In 1996 the World Bank and the IMF launched a new Heavily Indebted Poor Countries (HIPC) Initiative. It followed the prescriptions of the Washington Consensus: countries that wanted to take part in this initiative had to make commitments to implement reforms (reasonable macro-economic policies, establishment of the rule of law, as well as creating reliable and transparent financial systems). The HIPC Initiative was aimed at poverty reduction in developing countries: the resources freed from debt relief had to be rechanneled into financing programs expected to improve the living standards of populations.

Corruption was one of the formidable obstacles to effective implementation of this initiative. Assessing the global scope of corruption was impossible. But separate notorious cases were made public. For example, within just a few days after the decision on debt relief for Uganda had been made, the president of Uganda bought a personal jet. According to the 1996 survey, only 2 percent of the resources allocated to improvement of education systems in Uganda were actually delivered to the schools in 1991 and only 20 percent in 1995. The President of Zaire, Mobutu Sese Seko, amassed a personal fortune of about US$5 billion. The president of Cote-d'Ivoire, Félix Houphouët-Boigny built a basilica for US$300 million using his "own money". Kenyan officials stole US$1.1 billion from the Treasury [Thomas 2001, p.38].

Justified criticism, disappointment, and aid fatigue became characteristic features of the state of affairs in the field of international development assistance in the last decade of the 20th century. At the same time, these factors led to a significant revision of the whole foreign aid system and the adaptation of development assistance to new realities. However strange it may sound, the new approaches grew out of the rigid neoliberal prescriptions of the 1990s.

An important step toward the transformation of approaches to development assistance and the rethinking of development as a human-centric process was the publication of the series of Human Development Reports, the first of which came out in 1990. These reports were based on the Index of Human Development – an integral indicator that was calculated for the purposes of comparing countries and measuring living standards, literacy, education and life expectancy as key components of human potential.

Since the 1990s, the development assistance policy agenda began to include an environmental component. The term "sustainable development" that combined economic efficiency, social protection and environmental security – three key parameters for development of humanity as a whole – asserted itself both in development theory and in development practice. Financing programs aimed at environmental protection in the

countries of the former Third World became one of the priorities for providers of financial and technical assistance for development. The impetus was provided by the UN Conference in Rio in 1992 that adopted two key documents – "Declaration on Environment and Development" and "Agenda for the 21st Century" that addressed various global issues – from the eradication of poverty and hunger to empowering civil society in solving environmental problems. Another important result of this conference was the establishment of the UN Commission on Sustainable Development.

In the 1990s the DAC returned to the issue of aid effectiveness. This question had been studied attentively for quite a long time at the governmental level and in the academic community. The outcome of these discussions was the DAC report "Shaping the 21st Century: The Contribution of Development Assistance" that laid the foundations for future aid doctrines. While emphasizing that development assistance was not just a relationship between a donor and a recipient, but multilateral cooperation in the name of achieving common goals that implied division of responsibilities among all participants, the authors of the report stressed that development assistance policies had entered a phase of fundamental transformation instigated by the need to take into account both the local context and the global international environment. Development goals were formulated much more broadly than before. The issue of poverty reduction still topped the official aid doctrine agenda and was linked anew to achieving economic growth. But it was specifically mentioned that economic growth had to be beneficial for all social groups in developing countries [OECD-DAC1996].

For the first time attention at the official level was paid also to conflict-affected countries and to countries with bad governance. Providing assistance to people living in such countries was regarded as a precondition for preventing further social disintegration and conflicts. However, the international consensus on the "difficult partnerships" in the donor community took time to emerge. Provision of assistance to 'bad performers' was associated with significantly higher risks: a higher probability of program failure due to the instability of the political situation, a higher risk of doing harm, threat to the lives of those who implement a program, high fiduciary risks due to the prevalence of corruption, and high reputational risks from supporting repressive regimes. For all these reasons donors regarded these countries as difficult partners and sought to limit the extent of their engagement with them. The early "standard" approach to the poorly governed countries was based upon the following principles: 1) less money allocated; 2) an orientation toward project financing; 3) a shorter time commitment; 4) a narrower set of activities; 5) distribution of aid through NGOs (bypassing the state); and 6) provision of humanitarian aid only with a subsequent shift towards development aid. The change of approach occurred only in the mid-2000s.

5. Transformation of development assistance doctrine (2000s)

The first decade of the new millennium showed that the international donor community had managed to get over the "aid fatigue" syndrome and to make adjustments to development assistance doctrine based on drawing lessons from past experiences. The past 12 years have been characterized by a growth in the optimism and activism of donors which has been reflected in a further institutionalization of development assistance and an increase in aid levels.

At the beginning of the new millennium the focus of development policies shifted once again toward poverty reduction through economic growth and the fulfillment of basic human rights. Two multilateral organizations – the United Nations (UNICEF and UNDP) and the World Bank became initiators and ideological leaders of a new campaign of poverty eradication. UNDP proposed a broader conception of poverty that drew attention to the impossibility of achieving fulfillment of basic human rights (including economic, political, social, cultural and civil rights) in current conditions. The broader conception of poverty shed light on new dimensions of the multidimensional development process and illuminated the existence of interconnections between security, human development, (peacekeeping appears) and the possibility of fulfillment of human rights. In terms of aid programs aimed at poverty reduction, new initiatives addressed simultaneously the challenges of social and political development. In the *World Development Report 2000-2001*, the World Bank proposed a new comprehensive strategy of poverty reduction that contained three components: promoting opportunity, facilitating empowerment and enhancing security for those who are poor.

The Millennium Summit of September 2000 under the auspices of the United Nations, and the adoption of the Millennium Development Goals (MDGs) by the UN General Assembly, played a crucial role in setting the new development agenda. The key goals of development assistance were formulated as follows: eradicating hunger; achieving universal primary education; promoting gender equality and empowering women; reducing child mortality rates; improving maternal health; combating HIV/AIDS, malaria, and other diseases; ensuring environmental sustainability; and developing a global partnership for development. The goals which were endorsed so overwhelmingly were not revolutionary, but the fact of their collective endorsement (the resolution was endorsed by 193 countries and more than 20 multilateral organizations) was unprecedented.

The problems of coordination and aid effectiveness. The unanimity of the UN members – both donors and recipients - with respect to MDGs was extremely important for the future of international development assistance. Throughout the history of aid, differences in approaches and the absence of consensus and mutual understanding between two major groups of actors engaged in international development cooperation was a serious obstacle to the achievement of the declared goals. Coordination of efforts and aid effectiveness topped the agenda of many other international fora at the beginning of the new century.

In this regard, we have to mention the International Conference on Financing for Development in Monterrey, Mexico which was organized under auspices of the UN in March 2002. The final outcome of this forum was the *Monterrey Consensus on Financing for Development*[22]. It reflected a broad approach to development issues and their interconnectedness. Conference participants pointed out that globalization had brought both new opportunities and new challenges for developing countries and states with transitional economies. It was agreed that new approaches had to be comprehensive and just. In the mobilization of financing for achieving MDGs, the heads of states also emphasized the need for cooperative action in the field of growth promotion, poverty

22 Monterrey Consensus on Financing for Development. 2002. URL: http://www.un.org/ru/documents/decl_conv/declarations/monterrey.shtml

reduction and sustainable development, as well as the importance of fostering partnerships between developed and developing countries, South-South Cooperation, and trilateral cooperation. Special attention was paid as part of the Monterrey Consensus to the issue of good governance.

Further clarification of the goals and principles of development assistance and the establishment of new mechanisms for increasing aid effectiveness took place at the High-Level Forums in Rome (2003), Paris (2005), Accra (2008) and, finally, Busan (2011). The international community acknowledged the need to link MDGs to the priorities of recipient countries. Participants at the forums between 2003 and 2011 confirmed their commitment to overall principles of mutual accountability (of donors and recipients), *harmonization* of procedures and rules for the provision of bilateral aid, an alignment of aid programs with the national priorities of recipient countries, *managing for results*, and *ownership* – the delegation to the recipient countries of the right to decide about the use of aid.

The task of the High-Level Forum in Rome was to align agreed upon operational principles with the procedures of various organizations, agencies and institutions with the national systems of the partner countries. The Rome Declaration on Harmonization adopted in February of 2003 was aimed at an adjustment of aid practice. It listed the following priority actions as means of enhancing alignment:

- Ensuring that development assistance is delivered in accordance with the priorities of the partner country, including poverty reduction strategies and similar approaches, and that harmonization efforts are adapted to the country context;
- Reviewing and identifying ways to amend, as appropriate, the policies and procedures of individuals institution and countries to facilitate harmonization;. reduce donor missions, reviews, and reporting; streamline conditionality, and simplify and harmonize documentation; intensify donor efforts to work through delegated cooperation at the country level, and increase the flexibility of country-based staff to manage country programs and projects more effectively and efficiently;
- Encouraging partner countries to design country-based action plans for harmonization in agreement with the donor community that will set out clear and monitorable proposals to harmonize development assistance[23].

One of the most important outcomes of the Rome meeting was an acknowledgement by donors of the need to align development aid with national development priorities of the partner countries and the Millennium Development Goals.

The Second High Forum of Effectiveness of Aid for Development took place in Paris in 2005. The main provision of the final Paris Declaration was a commitment to accelerate reforms in developing countries through fostering partnerships. The participants set out five *partnership* goals. They outlined specific targets for their monitoring and evaluation: the partner country's ownership, an alignment of donors' activities with national strategies of the partner countries, a harmonization of donor activities, an improvement of the management of funds and decision-making based on managing for results, and mutual accountability. The Paris Forum paid primary attention to the problem of increasing effectiveness and efficiency of aid through reduction of duplication of effort, the lowering of transaction costs, and the elimination of disproportions in allocation of aid (deviations

23 Rome Declaration on Harmonization, 2003. URL: http://www.who.int/hdp/publications/1b_rome_declaration.pdf

from agreed priorities). The donor countries made commitments to support partner countries in the formulation and implementation of national development strategies, and to use national systems of public finance and administration. The signatories of the Paris Declaration agreed to adhere to the five aforementioned principles of aid allocation. For the purposes of monitoring progress in donor and recipient countries' implementation of their mutual obligations, forum participants established twelve indicators. The assessment of progress in implementing the Paris declaration was to be performed by the DAC Network on Development Evaluation that is a structural unit of the DAC[24].

The first surveys on monitoring the Paris Declaration were conducted in 2006 and 2008. They revealed that the process of reorganization of national and international aid systems was slow. In 2008, the heads of multilateral institutions and bilateral agencies met in Accra (Ghana). This High Level Forum endorsed the Accra Agenda for Action aimed at strengthening partner countries' capacities in aid management, increasing aid efficiency and the level of inclusion of various agencies and stakeholders in partner countries in the partnerships, enhancing accountability and transparency of official development assistance (ODA), cutting down on conditionality, and increasing aid predictability. The Accra forum drew the attention of the participants to factors that hinder and slow down the process of implementation of the Paris Declaration and formulated additional recommendations:

1) Adopt measures to reduce volatility and increase predictability of aid through increasing efficiency of partner countries public finances and adopting rolling three-to five-year forward expenditure and/or implementation plans;
2) Deepen the engagement with parliaments and civil society organizations in partner countries to exert oversight of the use of aid;
3) Use developing country systems to the maximum extent, whenever possible;
4) Reject the practice of tying of aid;
5) Form individual plans for untying of aid;
6) Adopt measures to prevent further fragmentation of aid (donors agreed to refrain from establishing new channels of aid delivery and foster cooperation based on the principle of division of labor);
7) Call all parties to adhere to the Paris Declaration principles. The contribution of the countries engaged in South-South cooperation was welcomed.

Donors and recipients were called to conduct joint monitoring of their activities while preparing the 2010 Survey on implementing the Paris Declaration. It was recommended to engage the representatives of parliaments and civil society in this process to enhance the reliability of the survey data[25].

The agenda of the Fourth High Level Forum in Busan (Republic of Korea) that took place in November-December 2011, according to numerous experts, reflected both the geopolitical shifts of the last years (strengthening of role of the BRICS - Brazil, Russia, India, China, and South Africa) and a changed situation in the sphere of development assistance. The Forum's motto was "Strengthening New Global Partnership for Effective Development Cooperation". Forum participants examined key issues related to goals and means of development assistance (transparency, good governance etc.) and emphasized

24 Paris Declaration on Aid Effectiveness, 2005. URL: http://www.oecd.org/dataoecd/11/41/34428351.pdf
25 Accra Agenda for Action. 2008. URL: http://siteresources.worldbank.org/ACCRAEXT/Resources/4700790-1217425866038/AAA-4-SEPTEMBER-FINAL-16h00.pdf

the specific features of a new stage of the evolution of aid doctrine – the need to expand the framework of global partnerships given the increasing complexity of aid architecture and the emergence of new actors.

The Busan forum made the decision to launch the *Global Partnership for Effective Development Cooperation*. The outcome document – the Busan Declaration - reflected a change in the paradigm of international development assistance: "aid effectiveness" was replaced by "cooperation for effective development". The document's emphasis on the engagement of more state and non-state actors reflected the need to strengthen the partnership between donors and recipients of aid. The outcome document emphasized specifically the benefits of South-South and trilateral cooperation, and the need to involve civil society and private businesses in the promotion of sustainable development with the active participation of such new industrial countries as China, India, and Brazil[26].

The evolution of aid doctrine in the 2000s followed the process of revision of theoretical concepts. In this respect the World Bank's "The Growth Report: Strategies for Sustained Growth and Inclusive Development" of 2008 was very characteristic[27]. The significance of this document is reflected in the fact that it was the first time when the elaborators of economic policies from developing countries with practical experience took part in the preparation of such a report. They examined the task of determining which development prescriptions had worked out in practice and which had not. Especially valuable were the findings of the report about the causes of variations between economic growth rates among the countries that implemented identical development policies. This proved to be a rejection of the Washington Consensus which had been based on the assumption that prescriptions for economic policies were universally applicable. Experts who participated in drafting this report were unanimous in acknowledging that "no generic formula exists; each country has specific characteristics and historical experiences that must be reflected in its growth strategy". Thus, the theory of development assistance was adjusted under pressure of the results from practice, and aid doctrine was re-oriented towards a more individualized approach.

The alleviation of debt burden: new initiatives. The need to mobilize significantly large resources for achieving MDGs brought the question about the alleviation of the debt burdens of developing countries' to the forefront of the development agenda. By 2001, forty-one of the poorest countries had gone bankrupt. Nine out of the ten HIPC countries were incapable of repaying their debts. The existence of considerable amounts of external debt did not allow debtors to maintain high growth rates and create the conditions for poverty reduction. Since the beginning of the 2000s, public opinion had started to exert pressure on donors. Especially active was the public movement Jubilee Debt Campaign that called for the cancellation of debts of the poorest countries.

To accelerate progress towards MDGs, the G8 countries agreed in June 2005 to provide between US$40 billion and US$55 billion to the World Bank, the International Monetary Fund and the Asian Development Bank to discharge a part of the debt of the HIPC countries. The Multilateral Debt Relief Initiative (MDRI) was established to complement HIPC. Each

26 Fourth High Level Forum on Aid Effectiveness, Busan, 29 Nov. – 1 Dec. 2011. URL: http://www.undg.org/index.cfm?P=1412

27 World Bank. 2008. The Growth Report: Strategies for Sustained Growth and Inclusive Development. URL: http://siteresources.worldbank.org/EXTPREMNET/Resources/489960-1338997241035/Growth_Commission_Final_Report.pdf

country that achieved the goals of HIPC got 100 percent debt relief. Whereas the World Bank and the Asian Development Bank implemented this new initiative only with respect to the countries that implemented the HIPC program, the International Monetary Fund set broader criteria: each country with an annual income per capita of US$380 dollars or less was eligible for full debt cancellation in accordance with the MDRI initiative.

Difficult partnerships: development assistance to fragile states. One of the main trends of the last years in the sphere of international development assistance was a concentration of the attention of donors to the problems of fragile states – the countries where state institutions were unable or unwilling to fulfill their basic functions. Such countries had been long regarded as difficult partners and had been "cut off" from aid flows. The revision of approaches was caused, on the one hand, by 9/11 that formed a clear perception of weak states as sources of transnational threats, and on the other hand, by collection of evidence that by the middle of the 2000s fragile states were lagging far behind in achieving MDGs. Currently all multilateral organizations – the UN, the OECD, the World Bank, the IMF, multilateral development banks and large donor countries have developed specific strategies of engagement with fragile states.

The consensus on fragile states which emerged in the donor community was based on three key assumptions: 1) Weak governance and conflicts are pivotal development problems and pose significant obstacles to achieving MDGs; 2) Statebuilding and peacebuilding are the key for overcoming fragility; and 3) Traditional mechanisms of aid delivery do not work in the fragile states. That is why innovative approaches are needed.

The OECD defines statebuilding as "an endogenous process to enhance capacity, institutions and legitimacy of the state". In February 2011 the OECD-DAC presented an integrated concept of statebuilding which remains the most comprehensive and detailed which has so far been developed. It identifies three pivotal components of statebuilding: 1) a political settlement - the implicit or explicit agreement (among elites principally) on the "rules of the game", power distribution and the political processes through which state and society are connected; 2) the capability and responsiveness of the state to fulfill effectively its principal functions and to provide key services; and 3) broad social expectations and perceptions about what the state should do, what the terms of the state-society relationship should be, and the ability of society to articulate demands that are "heard".

The broader interpretation of "statebuilding" outlined in the OECD-DAC model is a significant step forward in conceptualizing this phenomenon. This is an attempt to go beyond the "institutional approach" which had not taken into account the complex dynamics of state-society relations. At the same time, it became evident that in conflict-affected fragile states resilient state institutions will be able to emerge only under conditions of securing peace.

Initially peacebuilding had been viewed as a separate phase of the overall peace process. This interpretation of peacebuilding was quite narrow. Its goals had been limited to securing "negative peace" understood as the absence of direct violence. Peacebuilding was to be practiced exclusively in the post-conflict stage of the peace process ("post-conflict peacebuilding"). Peacebuilding efforts were undertaken during a rather short period with international organizations focusing on such activities as the disarmament of former

enemies and the restoration of order (programs for disarmament, demobilization and reintegration (DDR), the repatriation of refugees, the monitoring of elections, and the implementation of market reforms.

However, international missions organized in accordance with the aforementioned principles proved to be ineffective. The renewal of violence in such countries as Liberia and Rwanda made theoreticians and practitioners revise their approaches to peacebuilding. The lesson which was drawn was that political and economic liberalization cannot bring about expected results in the absence of strong and efficient formal institutions, but on the contrary, can lead to a new escalation of violence. The re-establishment of a capable state was now thought to be a precondition for peace. Since the end of the 1990s, peacebuilding has been interpreted much more broadly than before. Its goal was now to ensure a "positive peace" understood as the absence of structural violence in the society. The question became how to assist the process of fundamental transformation of the society – to strengthen human security and eliminate the root causes of conflict. Peacebuilding was no longer limited to the post-conflict stage of the peace process. It started being perceived as a long-term and multidimensional process of strengthening democracy and the rule of law, ensuring sustainable development, equal access to resources, and environmental security etc. Peacebuilding and statebuilding became complementary.

International donors have recently proceeded to elaborate an integrated approach to statebuilding and peacebuilding – "building states to build peace". The OECD and the UK Department for International Development outlined the main components of such an approach: analysis of the root causes; dynamics and motivation of parties in conflict; ensuring inclusive political settlements and peace processes; creating conditions for peaceful dispute resolution of conflicts through the political process; strengthening core state functions; and meeting public expectations.

Thus, after the emergence of the political consensus that regarded institutional weakness not only as an obstacle to aid delivery but as a threat to international security and a development challenge in its own right, donors drew two important conclusions: 1) a "standard" approach to difficult partners hinders achievement of the main goal – institution building; 2) the Paris Declaration principles cannot be applied automatically to all fragile states. This resulted in the adoption of *Ten Principles of Good International Engagement in Fragile States* by the OECD-DAC in 2007 which later were reflected in the Accra Agenda for Action. Donors agreed that in the elaboration of aid strategies and programs they will seek to: 1) Take context as the starting point; 2)Ensure all activities do no harm; 3) Focus on statebuilding as the central objective; 4) Prioritize prevention; 5) Recognize the links between political, security and development objectives; 6) Promote non-discrimination as a basis for inclusive and stable societies; 7) Align with local priorities in different ways in different contexts; 8) Agree on practical co-ordination mechanisms between international actors; 9) Act fast…but stay engaged long enough to give success a chance; and 10) Avoid pockets of exclusion ("aid orphans").

These principles became the cornerstone for the policies of the established donors that began in 2009 to monitor their implementation in particular countries. In the same year, the *International Dialogue on Peacebuilding and Statebuilding* (IDPS) was established by the OECD-DAC within the International Network on Conflicts and Fragility (INCAF).

In April 2010 in Dili, the capital of Timor-Leste, seven fragile states established the "g7+" grouping that now comprises already eighteen countries with populations totaling more than 350 million. In the last two years IDPS has produced three formal declarations 1) the "*Dili Declaration*" of April 2010, with an important "*Statement by the g7+*" in an annex; 2) The "*Monrovia Roadmap*" of July 2011; and 3) The "*New Deal for Engagement in Fragile States*" of December 2011.

Other evidence that the international community has been paying serious attention to fragile states was the World Bank "World Development Report" of 2011 entitled "*Conflicts, Security and Development*". The main idea of the report was that breaking the cycles of violence requires strengthening legitimate institutions and enhancing governance effectiveness. The authors of the report emphasized that conflicts and violence in the 21st century could not be addressed using the models of the 20th century. World Bank experts proposed new instruments of engagement in conflict-affected countries, and stressed that "measures of building confidence and institution building should be adapted to the realities of each country".

The progress of the international community toward adoption of innovative principles of providing aid to fragile states culminated in endorsement of the *Outcome Document of the 4thHigh Level Forum in Busan* (December 2011) that outlined the goal of strengthening "resilience against a spectrum of possible 'shocks' wider than violence and conflict, and that include health pandemics, climate change, economic downturns, food and fuel price crises and natural disasters"[28].

The consensus on fragile states that had emerged by 2012 laid the foundations for a new aid regime. Since its principles were formulated from the beginning with active participation by the recipient countries, it is expected to be much be more effective than both the discredited "standard" approach and the approaches of the second half of the 2000s that had been elaborated primarily by the donors acting alone.

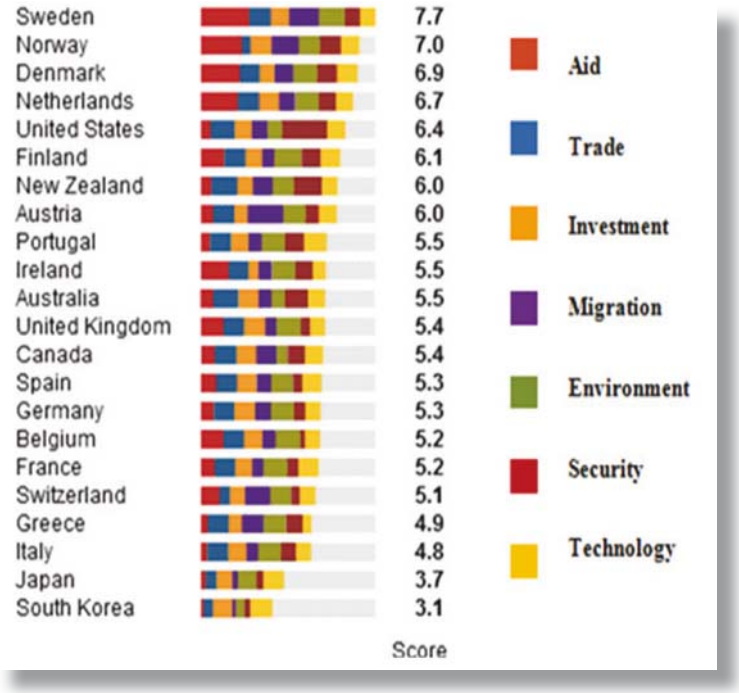
System of indicators of development aid effectiveness. The 2000s resulted in considerable progress in improving the system of indicators of aid effectiveness. Several special evaluation techniques were elaborated for monitoring of the implementation of the Paris Declaration. The World Bank evaluated aid effectiveness using its Comprehensive Development Framework[29]. In 2003 the Working Group on Aid Effectiveness was created within the OECD-DAC, and received a quite broad mandate. One of the main dimensions of its work was to monitor the implementation of the Paris Declaration and to evaluate progress on meeting each of its targets.

A very interesting system of indicators, based on the assessment of the commitments of various donors in different spheres of international development assistance was elaborated by the Washington-based think tank, the Center for Global Development. Its Index makes it possible to estimate and to compare the level of "commitment" of various donor countries to achieving development goals.

28 Busan Partnership for Effective Development Cooperation. Fourth High Level Forum on Aid Effectiveness, Busan, Republic of Korea. 29 November – 1 December 2011. URL: http://www.oecd.org/dataoecd/54/15/49650173.pdf

29 World Bank. Comprehensive Development Framework. URL: http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/0,,contentMDK:20236245~menuPK:488501~pagePK:146736~piPK:226340~theSitePK:258644,00.html

Figure 2.3. Commitment to Development Index.



Source: Center for Global Development. Commitment to Development Index.
URL: http://www.cgdev.org/section/initiatives/_active/cdi/

In 2010 the array of indicators which serve to evaluate human development potential was broadened. The HDI index itself underwent significant adjustments. In addition to the existing HDI that is an aggregate indicator based on average country data, and does not take into account internal inequalities, three new indicators were introduced: an index of human development, adjusted for social-economic inequality; an index of gender inequality; and a multidimensional poverty index (MPI). Analyzing the 2010 data, the CGD experts identified areas where the donor policies help or hinder development abroad and drew the following conclusions: 1) *Development is about more than aid*. (Aid is important, but trade, migration, investment, environment, security, and technology policies influence development too); 2) *Aid is about more than money.* (How donor countries design their aid programs is as important as how much aid they give); 3) *Coherence matters*. The Index penalizes countries that give with one hand (through aid or investment) but take away with the other (through trade or pollution); 4) *Partnerships are powerful.* No one nation can handle global challenges alone; and 5) *No one is perfect*. Almost all countries score below average in at least one area and most are below average in at least three.

***

Development aid doctrine has constantly evolved throughout its more than sixty-year long history. Each of the six decades was different from the prior one. However, the criteria that we have chosen – goals, dominant theoretical views and a system of indicators for results evaluation – makes it possible to identify four longer periods. These are: the 1950s-1960s when development was seen as equivalent to economic growth; the more successful 1970s when greater importance was attached to poverty reduction; the 1980s and 1990s when

development aid served as an instrument of structural adaptation, and finally, the 2000s when aid doctrine underwent significant transformation following the examination of past experience and failures. Overall, the beginning decade of the 21st century became a quite positive period in the evolution of aid doctrine. However, the numerous problems that remain show clearly that the developmentalists – both experts and practitioners - have a lot of work to do in the years ahead.

SELF-CHECK QUESTIONS

1. What are the criteria for periodization of aid doctrines?
2. What was specific about the first stage of evolution of the aid doctrine?
3. Why did donors shift from macro- to micro-financing programs in the 1970s? Did the change of aid doctrine lead to better results? Did it enhance the positive impact of aid on the population of developing countries?
4. How do you understand the term "lost decade"?
5. What determined the behavior of donors in the 1990s? What were the reasons behind the revision of development aid goals?
6. How would you assess the results of structural adaptation programs in the sphere of development assistance?
7. How did donors try to solve the issue of alleviation of the debt burden in the 1990s and 2000s?
8. How was the aid doctrine transformed in the 2000s?
9. How did the international community try to solve the problem of increasing aid effectiveness in the 2000s?
10. Which factors can explain the fact that providing assistance to fragile states became a priority of international development cooperation?

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PART II

AID ARCHITECTURE

Aid architecture is multidimensional. It includes institutional and legal bases, types of aid, sources of finance, partners in development cooperation, forms of interaction between them, modalities, channels of aid delivery, financial instruments, and, finally, individual projects and activities. Aid architecture has been constantly evolving and adapting to a changing environment for sixty years. It underwent the most dramatic transformation at the turn of the 21st century when it became much more complex. That was caused primarily by donor proliferation and differentiation, and by a diversification of channels for aid delivery. All these factors brought about new trends in the sphere of international development assistance that deserve to be summarized and analyzed in greater detail. Whereas Part I provided answers to the questions "What is development?" and "Why do we need development assistance?" Part II will explain who provides assistance, to whom, and how it is delivered.

In the beginning, the authors reconstruct the terminological and institutional-legal system in which international development assistance is provided currently, classify the main criteria, forms, and modalities of aid, as well as identify key development actors. Then they describe the latest trends in composition and distribution of aid flows with breakdowns by donor group, aid modality, region, country, income group, and sector, and analyze those trends that hinder progress in increasing the effectiveness of aid. Most of attention in Part II is focused on donors – both established and emerging ones - and the analysis of commonalities and particularities of their national strategies for participation in international development cooperation. These lectures are aimed at helping future Russian development professionals learn from the experiences of other donors. A separate lecture is devoted to Russia as an emerging donor.

LECTURE №3

DEVELOPMENT ASSISTANCE: DEFINITION, ACTORS, MODALITIES

Lecture outline

1. **Development assistance: problems of definition**
2. **Participants in international development cooperation**
3. **Aid modalities**

International development assistance represents a specific dimension of international cooperation. For the broad purposes of effective measurement of global aid flows the OECD Development Assistance Committee elaborated a set of concepts, rules, criteria, and modalities of interaction between different actors. Understanding these contributions of DAC are crucial for development practitioners. This system is constantly getting more complex under the influence of globalization, the growing interdependence between different spheres of life on the Planet, and redistribution of roles in the world economy and politics between various groups of state and non-state actors. The forms of the relationship between developed and developing countries are also changing. They often propose totally different interpretations of many basic terms, including the term "development assistance". However, the architecture of international development assistance is still based on the legal-institutional foundation that was laid many decades ago. This lecture describes the framework in which international development assistance is provided in the second decade of the 21st century, and identifies key terms, groups of actors, and the main forms of their interaction.

1. Development assistance: problems of definition

In the broadest sense, foreign aid is a voluntary transfer of resources from donors to recipients in the form of goods, skills, know-how, grants and credits (loans). In terms of goals, foreign aid can be divided into military, humanitarian, and development aid. According to the most general definition, **development aid (development assistance)** is aid aimed at promoting development and increasing the wealth of developing countries. This development objective emphasizes its fundamental difference from another type of aid – military aid that usually is provided in the form of supplies of arms and military equipment (and also training for required maintenance) to allies with the aim of strengthening their defense capabilities, or to the poor countries in order to help them retain control over their own territory.

Although the term "humanitarian aid" is often used independently, within the current classification it is defined as a sub-category of development aid. Humanitarian aid can be provided in monies and in-kind (food, medicine, goods). Specific investment projects in the spheres of infrastructure, health, sanitation, and education aimed at increasing the wealth of developing countries represents another type of development aid. Another subset

is technical assistance that can be defined as a transfer of scientific-technical knowledge and expertise, practical consultations in the economic, scientific and social spheres, which can be provided on concessional terms or as grants. A resolution of the UN General Assembly defines clearly the main forms of technical assistance: sending UN experts to developing countries for providing consultancy services for governments and the training of local specialists, providing fellowships for citizens of developing countries to make it possible for them to study abroad and sending technical personnel and supplies of equipment for demonstration.

Work on terminology in the sphere of development assistance is still ongoing. OECD, whose mandate includes coordination of aid policies of member states from the developing world, pays much attention to this problem. The UN system and the specialized agencies of the UN – the International Monetary Fund and the World Bank – are also engaged in this work. Some norms in the sphere of development assistance are being established within the EU, OPEC and other multilateral organizations and groupings.

Definitions of development assistance can emphasize the interests of aid recipients or those of donors, the impact of aid on the economic development of recipient countries, the goals of aid delivery, and the sources of finance. The most widely accepted approach is one that prioritizes the goals of providing aid to promote economic development and to increase the wealth of developing countries. Development is commonly understood to be the process of improving the quality of life of all people. Development is sometimes described as having three aspects: 1) raising people's living standards – their incomes and consumption levels of food, medical services, education, etc. through economic growth; 2) increasing people's freedom by enlarging their range of choices and by increasing the varieties of consumer goods and services accessible to them; and 3) creating conditions conducive to the growth of people's self-esteem by establishing social, political and economic systems and institutions that promote human dignity and respect[30].

Development assistance is provided not only by the governments of donor countries, but by non-state actors as well. It is divided accordingly into official and private aid.

Official Development Finance includes *Official Development Assistance* (ODA) and *Other Official Flows* (OOF).

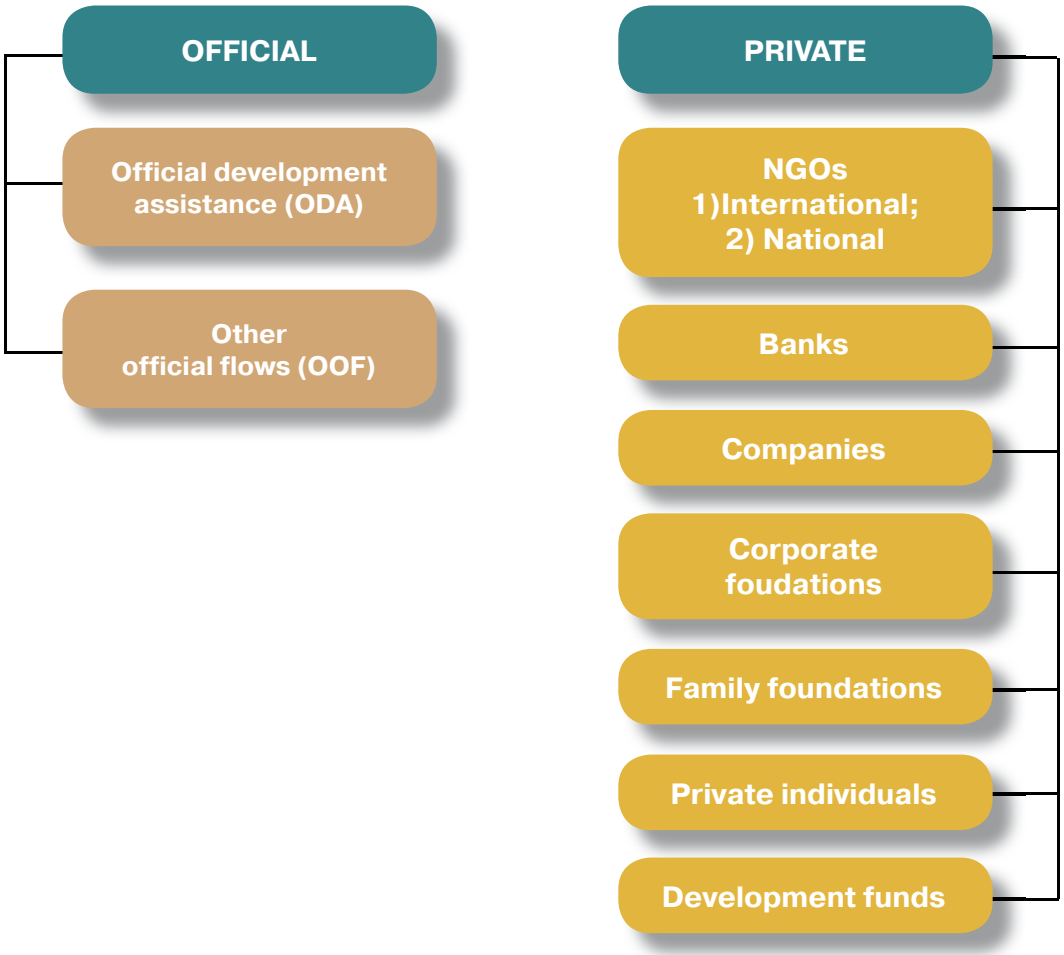
The definition of the ODA was agreed within OECD-DAC in 1969 and the definition expanded in 1972. Currently, ODA is defined as flows to countries and territories on the DAC List of ODA Recipients (developing countries), and to multilateral agencies which are: (a) provided by official agencies, including state and local governments, or by their executive agencies undertaken by the official sector; (b) is administered as its main objective the promotion of the economic development and the welfare of the peoples of developing countries; (c) is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent)[31]. *Grant-element* measures the concessionality of a loan, expressed as the percentage by which the present value of the expected stream of repayments falls short of the repayments that would have been generated at a given reference rate of interest[32].

30 The WHO Glossary of Globalization, Trade and Health Terms, World Health Organization. URL:http://www.who.int/trade/glossary/story015/en/index.html

31 DAC Glossary of Key Terms and Concepts, OECD. URL: http://www.oecd.org/document/32/0,3746,en_2649_33721_42632800_1_1_1_1,00.html#ODA

32 DAC Glossary of Key Terms and Concepts, OECD. URL:http://www.oecd.org/document/32/0,3746,en_2649_33721_42632800_1_1_1_1,00.html#Grant_Element

Figure 3.1. Classification of aid forms by source of finance.



To ensure homogenous reporting, the OECD-DAC defined the financial flows that can be counted as ODA. The main criteria are promotion of social-economic development and wealth. Since the DAC statistics focus on activities in support of development, loans provided for one year or less are not counted as ODA.

Members have agreed to limits on ODA reporting, e.g.:

1) *Military aid* – The supply of military equipment and services, and the forgiveness of debts incurred for military purposes, are not reportable as ODA. On the other hand, additional costs incurred for the use of the donor's military forces to deliver humanitarian aid or to perform development services are ODA-eligible.
2) *Peacekeeping* – The enforcement aspects of peacekeeping are not reportable as ODA. However, ODA does include the net bilateral costs to donors of carrying out the following activities within UN-administered or UN-approved peacekeeping operations: human rights, election monitoring, rehabilitation of demobilized soldiers and of national infrastructure, monitoring and training of administrators, including customs and police officers, advice on economic stabilization, repatriation and demobilization of soldiers, weapons disposal, and mine removal. (Net bilateral costs mean the extra costs of assigning personnel to these activities, net of the costs of stationing them at home, and of any compensation received from the UN.) Similar activities conducted for developmental reasons outside UN peace operations are also reportable as ODA, but not

recorded against the peacekeeping code. Activities carried out for non-developmental reasons, e.g. mine clearance to allow military training, are not reportable as ODA.

3) *Civil police work* – Expenditure on police training is reportable as ODA, unless the training relates to paramilitary functions such as counter-insurgency work or intelligence gathering on terrorism. The supply is not reportable of the donor's police services to control civil disobedience.
4) *Social and cultural programs* – As with police work, a distinction is drawn between building developing countries' capacity (ODA-eligible) and one-off interventions (not ODA-eligible). Thus, the promotion of museums, libraries, art and music schools, and sports training facilities and venues counts as ODA, whereas sponsoring concert tours or athletes' travel costs does not. Cultural programs in developing countries whose main purpose is to promote the culture or values of the donor are not reportable as ODA.
5) *Assistance to refugees* – Assistance to refugees in developing countries is reportable as ODA. Temporary assistance to refugees from developing countries arriving in donor countries is reportable as ODA during the first 12 months of their stay, and all costs associated with eventual repatriation to a developing country of origin are also reportable.
6) *Nuclear energy* – The peaceful use of nuclear energy, including construction of nuclear power plants, nuclear safety and the medical use of radioisotopes, is ODA-eligible. Military applications of nuclear energy and nuclear non-proliferation activities are not.
7) *Research* – Only research directly and primarily relevant to the problems of developing countries may be counted as ODA. This includes research into tropical diseases and developing crops designed for the conditions within developing countries. The costs may still be counted as ODA if the research is carried out in a developed country.
8) *Anti-Terrorism* – Activities combating terrorism are not reportable as ODA, as they generally target perceived threats to the donor as much as to the recipient countries, rather than focusing on the economic and social development of the recipient[33].

Let us define the limitations on inclusion of different operations in ODA.

Some transactions not recorded as transfers in balance of payments statistics are nevertheless eligible to be recorded as ODA, since they represent an effort by the official sector in favor of development. These include the costs of developmentally relevant secondary and tertiary education and vocational training (including stipends and travel) provided to developing country nationals in the donor country, the administrative costs of ODA programs, subsidies to non-governmental organizations, donor refugee costs, and programs to raise development awareness in donor countries. Capital investment in the donor country is not regarded as a flow and is therefore not eligible to be reported as ODA. This applies even to the construction and equipment for training and research facilities related to development issues. The running costs of such facilities may, however, be counted as ODA[34].

Aid for Trade is a specific sub-category of ODA. This initiative was launched at the 6th WTO Ministerial Conference in Hong Kong in 2005. Aid for trade refers to a subset of development assistance designed to boost their capacity to take advantage of expanded trade opportunities. It comprises aid that finances trade-related technical assistance; trade-

33 Is it ODA? OECD. URL:www.oecd.org/dataoecd/21/21/34086975.pdf
34 Ibidem.

related infrastructure, and productive capacity building. The allocation of resources under *Aid for Trade* is done both bilaterally and through multilateral and regional financial and development organizations, such as the World Bank and regional development banks. Aid for trade is most effective in the following spheres: analysis of trade policy and negotiations, easening of trade conditions, strengthening competitiveness, and diversification of exports[35].

The OECD-DAC defines *Other Official Flows* (OOF) as non-military transactions by the official sector with countries on the DAC List of ODA Recipients which do not meet the conditions for eligibility as Official Development Assistance, either because they are not primarily aimed at development, or because they have a grant element of less than 25 per cent. This category includes, for example, official subsidies granted to private companies aimed at supporting their commercial activities[36].

Private development aid is aid from private sources, such as non-governmental organizations, private companies, commercial banks, corporate foundations, family foundations, and individuals. It is important to mention a relatively new trend; the emergence of development funds that can be financed both by non-state actors – private companies, commercial banks, corporate foundations, family foundations, and individuals – and by governments (as ODA and OOF).

2. Participants in international development cooperation

In the second half of the 1990s, the OECD-DAC, while reacting to the process of fragmentation of aid architecture and seeking to get rid of a simplistic subjects-objects classification, shifted focus to the cooperation between all parties. However, for the purposes of typology, let us use the common categorization that divides actors involved in international development cooperation into donors and recipients.

Donors are the principal actors in international development cooperation. The donor community includes donor countries (both developed and developing ones), multilateral institutions, NGOs and private foundations.

Table 3.1.Composition of the donor community

Donor countries	Multilateral donors	NGOs	Private foundations
Established donors (DAC members)	Multilateral development banks	International NGOs	Family foundations
Emerging donors (countries beyond the DAC)	International Monetary Fund	National NGOs	Corporate foundations
	UN agencies		
	Other multilateral organizations and institutions		

35 OECD Work on Aid for Trade // OECD Official website. URL: http://www.oecd.org/document/52/0,3746,en_2649_37413_39145396_1_1_1_37413,00.html

36 DAC Glossary of Key Terms and Concepts, OECD.http://www.oecd.org/document/32/0,3746,en_2649_33721_42632800_1_1_1_1,00.html#OOF

Currently more than 50 countries provide development assistance. Donor countries can be divided into two large subgroups: established donors and new donors.

The group of **established donors** is represented by the members of the OECD-DAC – the privileged club of donors which was established in 1961 that has been shaping the international development agenda for more than half of a century. The DAC had ten founding members – Belgium, West Germany, Great Britain, Italy, Canada, Netherlands, Portugal (withdrew in 1974, rejoined in 1991), the United States, France, Japan, and the European Commission. The process of expansion of the DAC went as follows: Denmark (1962), Norway (1963), Sweden (1965), Austria (1965), Australia (1966), Switzerland (1968), New Zealand (1973), Finland (1975), Ireland (1985), Spain (1991), Luxembourg (1992), and Greece (1999). The last enlargement of the club occurred in 2010 with the accession of South Korea. Now the DAC includes 24 members: (23 countries plus the European Commission).

Although established donors never constituted a monolithic, homogeneous group (see more in Lecture №5), their development policies have some commonalities. These include: a high degree of monetization of aid, of concessionality level and of a grant element; active efforts aimed at increasing aid effectiveness and harmonization primarily by untying of aid and broadening the scope of use of direct budget support.

The **emerging donors** are the countries that provide assistance to developing countries but do not belong to the OECD-DAC[37]. Emerging donors constitute a very heterogeneous group. It includes many countries that are radically different in terms of political-economic parameters, in their roles in international relations, and in their models of aid delivery. Non-membership in the OECD-DAC is, indeed, the only common feature. For that reason the donor community seeks to identify specific, more homogenous subgroupings within this group. The latest typology proposed by the OECD-DAC is based not on institutional or geographic criteria, but on the model of participation in IDC and by interaction with the club of traditional donors. This typology identifies three groupings – each with particular model of providing aid.

1) *Emerging donors following the DAC model*. This grouping includes the countries that build their national aid systems, including normative basis, strategy and institutions – following the model of traditional donors: twelve new EU members that build their aid programs taking EU principles as the reference point (Bulgaria, Hungary, Cyprus, Latvia, Lithuania, Malta, Poland, Romania, Slovenia, Slovakia, Czech Republic, Estonia), three members of OECD that do not belong to the DAC (Iceland, Israel and Turkey), and finally, Liechtenstein and Russia that are not members of OECD. All the aforementioned countries report to the DAC according to its methodology and adhere to the principles of the Paris Declaration of 2005.

2) *Arab donors* like Kuwait, Saudi Arabia and the United Arab Emirates (UAE) have been engaged in development co-operation for decades, particularly since the

37 There is also a broad interpretation that includes both state and non-state actors (such as private foundations and NGOs) in the group of 'emerging donors'.

petroleum boom of the 1970s. Unlike South-South Development Cooperation (SSDC) providers, they appear comfortable with the donor label. Their approaches to development assistance are different from those used by most DAC donors. Yet they do not have much in common with those countries that adhere to the DAC principles even if they provide official (however incomplete) data there. The Arab donors also stand out in terms of aid principles, institutional structure, and sector and geographical priorities.

3) *Providers of South-South Cooperation*. The countries that are the most active in strengthening South-South Development Cooperation are Brazil, Venezuela, Egypt, India, China, Colombia, Malaysia, Mexico, Thailand, Chile, and South Africa. Most of them are both aid donors and recipients. The cooperation between this grouping with traditional donors is limited to policy dialogue, and in some cases, to the reception of technical assistance in statistical reporting from the DAC. However, as the HLF 4 in Busan clearly demonstrated, these counties prefer not to make commitments as donors and distance themselves from the DAC club [Zimmermann and Smith 2011].

Multilateral donors. In fact, multilateral institutions, programs and funds are financed by bilateral donors (the DAC members, predominantly). International institutions also attract funds from private investors, but they are used for access to credit resources, and not for development assistance with high grant-elements. The main multilateral donors can be classified as follows:

Table 3.2.Classification of Multilateral Donors

International financial institutions	UN agencies	Other multilateral organizations and institutions
World Bank Group	UN funds and programmes	Global funds
Regional and subregional development banks	Specialized UN agencies	OPEC Fund
International Monetary Fund		European Commission etc.

Multilateral development banks are the largest donors among international financial institutions. This group includes: the World Bank Group, regional development banks (Inter-American Development Bank, Asian Development Bank, African Development Bank, European Bank for Reconstruction and Development) and subregional development banks (Caribbean Development Bank, Islamic Development Bank, Central American Bank for Economic Integration, Andean Development Corporation etc.)

Multilateral development banks are non-commercial organizations whose activities are aimed at solving social and economic problems of developing countries. They serve as financial intermediaries between developed and developing countries and promote the economic and social development of the latter. Using various mechanisms for attracting financial resources (contributions to core capital, credits, deposits, bond issuance etc.)

these banks accumulate large funds that they allocate as long-term credits for investments, infrastructure, implementation of social and other projects, providing guarantees, grants and technical assistance[38].

The core activities of the multilateral development banks do not qualify as ODA since a considerable part of resources is delivered on non-concessional terms. Taking into account the differences in development levels and the different structures of economy between recipient countries, development banks use various sources for the financing of borrowers. Poor countries get credits on concessional terms from the funds for special operations often called a "concessional window" (International Development Association within the World Bank Group, Asian Development Fund within the Asian Development Bank Group, African Development Fund and Nigerian Trust-Fund within the African Development Bank Group; the European Development Fund). Countries with higher incomes get credits from the core funds called "hard windows" because of their close-to-market interest rates. Most loans are provided from these "hard windows". For example, within the Asian Development Bank, the share of lending from a "hard window" reaches 70 percent. Moreover, developed countries – members of multilateral development banks establish trust funds to help developing countries by providing technical assistance, consultancy services, co-financing and micro-financing.

The World Bank Group is the largest multilateral development bank. It is the largest donor among all multilateral financial institutions. The World Bank is not a bank in a conventional sense. The World Bank Group provides financial and technical assistance to developing countries. The goal of the institutions within the World Bank Group is to provide aid to developing countries "to help them help themselves". The World Bank Group serves as a platform for capital attraction, a source of technical and expert assistance in private sector development, a vehicle for improving governance standards and an impetus for fighting corruption in developing countries. The WBG activities cover a vast spectrum of fields which include, by way of example, trade, finance, health, education, and climate change mitigation.

The World Bank Group consists of five organizations: The International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA); The International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA), and The International Centre for Settlement of Investment Disputes (ICSID)

IBRD and IDA are the main creditor institutions of the World Bank Group. IBRD lends to governments of middle-income and credit-worthy low-income countries, IDA provides interest-free loans—called credits— and grants to governments of the poorest countries (with GNI per capita not exceeding US$1,135 dollars in 2010) that do not have access to international credit markets.

In 2011, 79 countries (half of them from Africa) were eligible to receive IDA assistance. IDA is financed largely by contributions from donor governments. Additional financing comes from transfers from IBRD's net income, grants from IFC, and repayment by borrowers of earlier IDA credits. Every three years donor governments and representatives

38 See more about mobilization of funds by multilateral development banks in: Abalkina A.A. 2006. "Sovremennye tendentsii formirovaniya resursnoy bazy v mnogostoronnikh bankakh razvitiya" Bankovskoye delo 4.

of borrower countries meet to discuss IDA's policies and priorities, and to reach an agreement on the volume of new resources required to fund its lending program over the subsequent three fiscal years.

The IDA is not just a concessional window of the World Bank Group. It is also a platform for policy dialogue between donors and partner countries on development issues. Moreover, the IDA serves as a platform for mobilization of additional resources from donors for the programs executed by the IBRD. The IBRD's activities are aimed at providing loans to middle-income and credit-worthy lower income countries and administering financial resources contributed by bilateral donors to its trust funds. Trust funds serve as an additional instrument for promoting strategic policy dialogue between the World Bank and donor countries in such spheres as work in fragile countries, piloting innovative approaches to international development, and increasing the effectiveness of knowledge exchange. The IBRD-executed trust funds also make it possible to scale-up IDA-supported programs. In the 2010 fiscal year, the WBG controlled trust funds totaling US$26 billion. The IBRD gets its money primarily from capital markets by issuing AAA-rated bonds.

The International Finance Corporation offers investment, advisory, and asset and risk management services to encourage private sector development in developing countries.

The MIGA assists in attracting foreign direct investment into developing countries to promote economic growth, reduce poverty and ameliorate living conditions by offering political risk insurance guarantees.

During the 2011 fiscal year the World Bank Group committed US$57.3 billion in loans, grants, equity investments, and guarantees to its members and to private businesses. The IBRD commitments in 2011 totaled US$26.7 billion compared with US$44.2 billion in 2010, but still above pre-crisis levels. IDA, the World Bank Group's fund for the poorest countries, made commitments of US$16.3 billion in 2011, a 12 percent increase over the previous year. Support from IFC in 2011 increased by 3 percent to US$12.2 billion, and MIGA issued US$2.1 billion in guarantees in 2011, a 43 percent increase over fiscal 2010. In addition, in 2011 a broadened coalition of 51 donors pledged a record-breaking IDA16 replenishment of US$49.3 billion for the next three fiscal years—an increase of 18 percent over IDA15[39].

The World Bank, like the IMF, has the status of a specialized UN agency, The relationship between the UN and the World Bank was defined by a special agreement in November 1947. Their cooperation covers poverty reduction, promotion of sustainable development and investments in human capital. At the operational level, the World Bank cooperates closely with the UNDP and other UN funds and programs through implementation of joint projects, co-financing and coordination activities. The World Bank is one of 6 donors of the Joint United Nations Programme on HIV/AIDS (UNAIDS), and one of the largest contributors to fight against HIV/AIDS. The cooperation between the World Bank and the World Food Programme contributes largely to international programs of hunger prevention. The World Bank Group currently implements more than 1,800 projects aimed at raising living standards and reducing poverty. The WBG members can be divided in two groups – developed countries and developing ones. Members of the WBG from the group

39 World Bank. 2011. Year in Review. Washington, D.C.: World Bank, p.2 URL: http://siteresources.worldbank.org/EXTANNREP2011/Resources/8070616-1315496634380/WBAR11_YearInReview.pdf

of developing countries prepare poverty reduction strategy papers (PRSPs) at the request from the WBG and the IMF in consultation with civil society and the private sector. The WBG and the IMF started using PRSPs in 1999 as instruments for strengthening mutual accountability in the sphere of poverty reduction and as coordination mechanisms between donor and recipient governments, and with other stakeholders in development aid programs.

Developed countries, in their turn, formulate joint strategies for providing assistance to developing countries. These joint strategies provide a detailed description of modalities and mechanisms for implementation of specific WBG programs for particular countries. The strategies which are created are elaborated jointly by representatives of national governments, and contributed to by government institutions and civil society organizations from developing countries, and other stakeholders. This comprehensive effort takes into account long term country development strategy, as well as comparative advantages of the World Bank programs coordinated with their donor's strategies.

World Bank activities can be divided into financial and non-financial. Financial activities include such mechanisms as loans, grants, trust funds, and non-financial provisions of analytical and consultancy services.

The IBRD and IDA provide loans of two types: investment credits and development loans. Investment credits are provided to developing countries for implementation of social-economic development programs in various sectors. Development policy loans (loans for structural reforms) are provided with the aim of assisting policy and institutional reforms. Long term IDA loans are interest-free by definition with a small fee of 0.75 percent of donated funds. IDA also provides grants that aim to induce developing countries to create and mainstream innovations and engage partners in development projects.

Grants are provided in the following spheres:

- alleviation of the debt burden of heavily-indebted countries,
- raising the effectiveness of sanitation and water management services,
- financing immunization and vaccination programs with the aim of reducing the level of exposure to transmissible diseases,
- fighting the HIV/AIDS pandemic,
- assistance to civil society organizations, and
- creating initiatives for the reduction of carbon emissions.

Trust funds are financial and administrative arrangements between the World Bank and external donors aimed at financing high-priority sectors that have a pivotal importance to socio-economic development.

The activities of regional and sub-regional development banks are focused not only on raising living standards in poor countries, but also on the structural development of entire sub-regions as well. Regional development banks borrow funds on international financial markets and lend them often at near-market terms. The levels of ODA provided by these banks are very small in comparison with contributions by the World Bank Group. However, their role as donors in international aid architecture is quite noticeable. For example, the African and Asian Development Banks account for 10 percent of global multilateral aid (6 percent and 4 percent respectively)[40].

40 OECD. 2012. "Development Aid at a Glance. Statistics by Region. 1. Developing countries". 2012 edition. OECD Publishing, Paris. URL: http://www.oecd.org/dataoecd/59/5/42139479.pdf. p.6

Development assistance provided by multilateral development banks has some particularities:

- If bilateral aid is delivered mostly in the form of grants, multilateral development banks provide primarily loans.
- The share of concessional loans varies, but it is less than the share of funds provided on market terms.

Thus, the activities of multilateral development banks can often lead to debt dependency by the recipient countries. Although foreign policy factors and the economic interests of donor countries play a lesser role in the lending of development banks than in bilateral aid, they still have impact on the distribution of loans and grants to recipient countries. For example, the cooperation between China and the World Bank and the Asian Development Bank was temporarily halted after the massacre on Tiananmen Square in Beijing on June 4, 1989. Developed countries who hold a large share of the banks' assets imposed sanctions on China and halted aid flows to Beijing. Multilateral development institutions are often criticized for an ideological approach to borrowers which are forced to implement policy reforms. Sometimes their policies are perceived as an instrument of neoliberalism that does not take into account the particularities of national development models.

International Monetary Fund Given its mandate, the IMF is more oriented to ensuring the financial stability of recipient countries than in assisting development. However, in the last decade IMF has assumed responsibility for assisting in the achievement of Millennium Development Goals through provision of technical assistance, concessional loans, consultancy services, and the mobilization of donors' resources for development. The organization provides loans that qualify as ODA, primarily through its Poverty Reduction and Growth which has 3 credit mechanisms – the Extended Credit Facility, the Standby Credit Facility for poor countries, and the Rapid Credit mechanism. Apart from those credit mechanisms, the IMF established a special Post-Catastrophe Debt Relief Trust.

Another important mechanism for the provision of development assistance to developing countries is the various UN agencies, funds and programs (about 30 institutions overall) that account for 10 percent of global multilateral ODA currently. The process of aid delivery through UN agencies is rather complicated and involves an entire system of different organizations.

The UN Economic and Social Council (ECOSOC) – is one of the main UN institutions that coordinates cooperation in the economic and social spheres within the UN system and its specialized agencies. ECOSOC includes several regional commissions:

- United Nations Economic Commission for Africa (ECA),
- United Nations Economic and Social Commission for Asia and the Pacific (ESCAP),
- United Nations Economic Commission for Europe (ECE),
- United Nations Economic Commission for Latin America and the Caribbean (ECLAC), and
- United Nations Economic and Social Commission for Western Asia (ESCWA).

Specialized UN agencies. These include the World Health Organization (WHO), the International Fund for Agricultural Development (IFAD), the UN Development Programme (UNDP), the Food and Agriculture Organization (FAO) etc. These international organizations are autonomous, and have specific cooperation agreements with the UN.

UN agencies, funds, programs. These include the United Nations International Children's Emergency Fund (UNICEF), the United Nations Population Fund (UNFPA), the World Food Programme (WFP), Joint United Nations Programme on HIV/AIDS (UNAIDS), the Office of the United Nations High Commissioner for Refugees (UNHCR), also known as The UN Refugee Agency, United Nations Relief and Works Agency (UNRWA), and the United Nations Human Settlements Programme (UN-HABITAT).

The funds and programs of the United Nations are financed by donor countries, NGOs, and private foundations. The main problem with replenishment of funds is earmarking. More than 75 percent of the funds administered by the UN agencies are non-core, earmarked funds. The donors choose the spheres of aid allocation. This practice restricts the use of these funds within the UN programs. Further, it does not allow recipient countries to set development priorities themselves.

There are many other international institutions in a contemporary development aid architecture, such as funds and partnerships with a narrow specialization and focus on a specific issue.

Global funds. They include the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund), the Global Environment Facility (GEF), the Global Alliance for Vaccines and Immunization (GAVI alliance), and the International Finance Facility for Immunization (IFFIm).

The Global Fund is the main financial facility that fights AIDS, Tuberculosis and Malaria. The Global Fund financed 573 programs in 144 countries in the amount of US$19.3 billion.

The Global Environmental Facility (GEF), established in 1991, coordinates implementation of key international agreements in the field of environment. It finances projects related to the preservation of biodiversity, climate change mitigation, soil degradation, ozone layer destruction, environmental pollution etc.

Organization for Economic Co-operation and Development (OECD). The OECD plays an especially important role in aid architecture. There are four bodies within this organization that implement development activities both in the member countries and beyond OECD: the Development Assistance Committee (DAC), the Development Centre, the Centre for Cooperation with Non-Members (CCNM), and the Sahel & West Africa Club (SWAC).

The World Trade Organization (WTO). The main goal of the WTO is regulation of trade relations and not assistance to developing countries. But development assistance is one of the important parts of its activity. It is especially important because more than two-thirds of the WTO members belong to the group of developing countries. Development issues and developing countries' interests became one of the focuses of the WTO work in the Doha Round. At the Sixth Ministerial Conference of the WTO (Hong Kong, 2005) *the Aid for Trade Initiative* was launched as a special WTO mechanism for assisting the inclusion of developing countries in international trade, and boosting their capacities to expand foreign trade. However, WTO does not provide aid for trade, but organizes the joint work of various development assistance mechanisms, conducts monitoring and disseminates its results.

The G8 and G20. These groupings of developed countries also play an important role in setting the international development agenda. They act as central forums for discussing and coordinating international economic policies. International development assistance

issues are also one of their priorities. The heads of the leading countries – also members of other international organizations – bring into focus the decisions of other forums, make relevant commitments, and provide mandates for the implementation of specific programs.

The number of multilateral organizations engaged in international development assistance has been increasing recently. Currently, there are more than 230 of these institutions that account for about one-fourth of global ODA. Distribution of financial resources between different organizations is unequal. The 15 largest organizations account for 90 percent of multilateral aid.

Aid provided by multilateral organizations has some advantages in comparison with bilateral aid. First, the distribution of funds is less influenced by political factors. Second, funds accumulated by multilateral organizations allow them to implement large-scale projects. Third, the arrangements of multilateral organizations facilitate coordination between donors both on regional and global levels. However, the diversification of multilateral donors exacerbates the issue of aid fragmentation and increases administrative burdens in recipient countries. To avoid that, various multilateral organizations should coordinate their efforts and assume greater responsibility for increasing the effectiveness of aid.

Non-governmental organizations. According to the World Bank definition, non-governmental organizations are private organizations that pursue activities to relieve suffering, promote the interests of the poor, protect the environment, provide basic social services, or undertake community development[41]. There are at least two types of NGOs – international and national. The second group, in its turn, consists of the NGOs located in donor countries and local NGOs located in partner countries. The number of NGOs of all kinds has been constantly increasing. However, accurate statistical data is unavailable. According to assessments by the London School of Economics and Political Science, there were 59,000 NGOs in the world in 2003, 60 percent of which were involved in activities related to economic and social development. NGOs have proliferated in the developing world. For example, there are 15,000 NGOs registered in India that get funding from foreign sources. There are more than 1,000 NGOs in Bangladesh, some of which are really large. For example, the Bangladesh Rural Advancement Committee implements hundreds of projects totaling US$ 240 million.

However, the amount an NGO's own funds that they contribute themselves represent a very small part of the total development finance that donor countries channel to/through them. The main role of the NGOs from donor countries is to implement programs and projects, primarily through project financing schemes. This pertains to both established and emerging donors. Countries of Central and Eastern Europe have been promoting cooperation with specialized non-governmental development organizations (NGDOs) and the so-called "platforms" that facilitate dialogue between the government, NGOs, and the private sector.

Private philanthropic foundations. A foundation is a non-governmental organization that administers the funds that it gets from individuals as donations for socially relevant goals. Foundations are non-commercial organizations that focus in such spheres as

41 World Bank. 1989. Operational Directive 14.70: Involving Nongovernmental Organizations in Bank-Supported Activities. August 28, 1989.

environment, social services, health, education, culture, arts and sciences. Among the philanthropic foundations that finance development, corporate and family foundations are especially active. The largest one - is the Bill and Melinda Gates Foundation – is the only agency of its kind that has recently started reporting to the OECD-DAC using its methodology.

The number of foundations has been constantly growing in the last decades. For example, there are now, at least, 95,000 social funds in the EU. Some of them are quite large. 55,552 foundations have US$237 billion in assets.

Box 3.1. Bill and Melinda Gates Foundation

Bill and Melinda Gates Foundation established in 1994 is the largest charity foundation in the world. It focuses on improvement of health systems and hunger eradication in poor countries. Foundation's funds were allocated towards implementation of prevention and fighting AIDS and tuberculosis, fighting malaria, and the project of immunization of children in India and Africa and other initiatives. Since its establishment the foundation provided grants totaling US$24 billion.

Recipients. The main recipients of development aid are developing countries, countries with economies in transition, and fragile states. Recipient countries are perceived as partners that are responsible for, and interested in, the modernization of their national economies and the acceleration of their social development.

For the purposes of measuring the volumes of international aid, accounting for its expenditure, and the monitoring of funds provided to developing countries, multilateral organizations – the UN and OECD – classify aid recipient countries using certain statistical parameters, such as GNI per capita. Statistical databases of OECD, the World Bank and the UN serve as reference systems for international development aid policies and the expenditure based on those policies.

The DAC list and typology of recipients is the most well-known. The DAC composes the list of developing countries and territories eligible for receiving ODA. Developing countries are categorized according to level of economic development and GNI per capita. The list comprises four major groupings: 1) least developed countries (LDCs); 2) other low-income countries; 3) low-middle income countries; and 4) high- middle income countries. The DAC List of ODA Recipients is designed for statistical purposes. It helps to measure and classify aid and other resource flows originating in donor countries. It is not designed as guidance for awarding aid or other preferential treatment. The DAC revises the list every three years.

In 1993 – with new aid requirements for the transition economies of eastern Europe and reduced aid needs in East Asia due to rapid progress – a new list was devised. It was divided into two parts: Part I: Only aid to "traditional" developing countries counted as ODA, for which there is a long-standing United Nations target of 0.7 percent of donors' national income. Part II: Aid to "more advanced" developing and eastern European countries were recorded separately as "official aid". The countries could be transferred from Part I to Part II with an increase of GNI per capita. With successive revisions, the two-part list has

become increasingly complex. At the same time, aid to the more advanced developing and transitional countries declined as they became more prosperous. For example, a number of former Soviet bloc states joined the European Union and became donors themselves. In 2005, the DAC therefore reverted to a single list of ODA Recipients. In 2005 such middle-income countries as Russia, Bulgaria, Hungary, Cyprus, Latvia, Lithuania, Malta. Poland, Romania, Slovenia, Slovakia, Czech Republic, Estonia were excluded from the list [42].

The DAC list currently includes all low- and middle-income countries except for those that are members of the G8 or the European Union, including countries with a firm accession date for EU membership. In addition, the list separately includes all Least Developed Countries (LDCs) as defined by the UN. The last version of the list approved in October 2011 contains 148 countries and territories and that will be used for reporting for 2011-2013 (Table 3.3).

Table. 3.3. The DAC List of ODA Recipients. Effective for Reporting on 2011, 2012 and 2013 Flows.

Least developed countries	Other low-income countries	Lower middle-income countries and territories	Upper middle-income countries and territories
Defined by the UN	per capita GNI <= US$1,005 in 2010	per capita GNI US$1,006-US$3,975 in 2010	per capita GNI US$3,976-US$12,275 in 2010
48 countries	6 countries	40 countries and territories	54 countries and territories

Source: The DAC List of ODA Recipients. Effective for reporting on 2011, 2012, and 2013 flows. URL: http://www.oecd.org/dataoecd/9/50/48858205.pdf

Membership in the OECD does not influence whether or not a given country is included in the list. For example, Mexico is an OECD member. It is included in the List of Aid Recipient countries. Exclusion from the list occurs after a country achieves high income status and maintains that level for three years. Thus, high-income countries are not included in the List of Aid recipients.

Other multilateral organizations use their own criteria to define aid recipient countries. For example, multilateral development banks identify countries that are eligible for getting concessional loans based on several criteria: 1) development level measured as GNI per capita; 2) creditworthiness as reflected in its sovereign rating, or in the ability of a state or state companies to borrow on the international markets. Low level of development and low creditworthiness of a country allows it to get concessional loans.

For example, the World Bank set a GNI per capita level of not more than US$1,135 dollars in 2010 for the countries that want to get access to concessional loans from IDA. The Asian Development Bank classifies recipient countries in four groups based on two criteria –income level and ability to repay debts. This categorization allows identification of countries that can get access either to a "hard" or to a concessional window, or to both windows simultaneously. The GNI per capita level is set at the same level as in IDA.

42 History of DAC Lists of aid recipient countries. URL: http://www.oecd.org/document/55/0,3746,en_2649_34447_35832055_1_1_1_1,00.html#Origins

The donor community identifies fragile states as a separate cluster of aid recipient countries. Currently, there is no unified definition of fragile states, but experts from international organizations have identified some common features inherent to these countries. For example, the *Principles on Good International Engagement in Fragile States and Situations* published by OECD in 2007 states that a country becomes fragile when the government lacks the capacity or will to ensure security, good governance and reduce poverty[43].

The World Bank defines fragile countries as countries with weak policies, institutions and governance. Today, the grouping of fragile states comprises about fifty developing countries (about two-thirds of all low-income countries). More than half of these states are located in the Sub-Saharan Africa. More than 1.5 billion people live in fragile states, including 40 percent of the poorest (the number of the poor that live in fragile states has doubled between 2005 and 2011. It is believed that it will surpass 50 percent of the poorest by 2015). After the revolutionary upheavals in the Middle East and North Africa countries, labeled the "Arab Spring", the number of "fragile states" has increased considerably. The poverty levels in fragile states is almost 2.5 times higher than in other low-income countries The same is true in fragile states for the chances of suffering from hunger, lack of access to primary education and infant mortality. The last Millennium Summit concluded that no fragile state has achieved a single MDG by 2010.

3. Aid modalities

Forms of aid includes defining aid modalities, channels of aid delivery, and financial instruments that should be distinguished from, and linked to, each other.

A new OECD-DAC typology which entered into force beginning in 2011[44] identifies eight aid **modalities**, many of which break down into several sub-types;

1) *Budget support* is a method of financing a recipient country's budget through a transfer of resources from an external financing agency to the recipient government's national treasury. The funds thus transferred are managed in accordance with the recipient's budgetary procedures. For contributions under this category, the donor relinquishes exclusive control of its funds by sharing responsibility with the recipient. There are two subtypes of budget support: general budget support and sector budget support. The first category, general budget support, is an unearmarked contribution to the government budget including funding to support the implementation of macroeconomic reforms (structural adjustment programs, poverty reduction strategies). Funds transferred to the national treasury for financing programs or projects managed according to different budgetary procedures from those of the recipient country, with the intention of earmarking the resources for specific uses, are therefore excluded. The second category, sector budget support, is also a financial contribution to a recipient government's budget. However, in sector budget support, the dialogue between donors and partner governments focuses on sector-specific concerns, rather than on overall policy and budget priorities.

43 OECD-DAC. 2007. "Principles on Good International Engagement in Fragile States and Situations". OECD Publishing, Paris. p.3

44 OECD-DAC. 2009. Reporting Directives for the Creditor Reporting System. Addendum on Types of Aid. URL: URL:http://www.oecd.org/dataoecd/11/27/44479737.pdf

2) *Core contributions and pooled programs and funds* In this aid morality, the donor relinquishes exclusive control of its funds by sharing the responsibility with other stakeholders (other donors, NGOs, multilateral institutions, public private partnerships). The category covers several different types of contributions:
   2.1) Core support to NGOs, other private bodies, PPPs and research institutes for use at their discretion. This category of core support contributes to programs and activities which these actors have developed themselves, and which they implement on their own authority and responsibility.
   2.2) Core contributions to multilateral institutions - These funds are classified as multilateral ODA (all other categories fall under bilateral ODA). The recipient multilateral institution pools contributions so that they lose their individual identity and become an integral part of its financial assets.
   2.3) Contributions to specific-purpose programs and funds managed by international organization (Multilateral, INGO) - In addition to their core-funded operations, international organizations set up and raise funds for specific programs and funds with clearly identified sector, thematic or geographical focus. Trust-funds are also recorded here. Trust funds are vehicles for channeling aid resources from governmental and nongovernmental donors to be administered by a trustee organization such as the World Bank or other development organization. Trust funds are not programs in themselves; rather, they are dedicated sources of funding for programs and activities agreed between the donor(s) and the trustee organization. The activities that trust funds finance are also highly varied, ranging from huge global programs with their own governance structures to conventional development projects, debt relief operations, and studies, technical assistance, and project implementation.
   2.4) Basket funds/pooled funding. The donor contributes funds to an autonomous account, managed jointly with other donors and/or the recipient. The account will have specific purposes, modes of disbursement and accountability mechanisms, and a limited time frame. Basket funds are characterized by common project documents, common funding contracts and common reporting/audit procedures with all donors that will more or less correspond with the budgetary and other procedures in a recipient country.

3) *Project financing*. A project is a set of inputs, activities and outputs, agreed with the partner country, to reach specific objectives/outcomes within a defined time frame, with a defined budget and a defined geographical area. Projects can vary significantly in terms of objectives, complexity, amounts involved and duration. A large project with a number of different components is sometimes referred to as a program.

4) *Experts and other technical assistance*. This category covers activities financed by donor countries and aimed at enhancing knowledge and skills and providing know-how to the populations of developing countries. Technical assistance is provided in the form of donor-country personnel (experts, consultants, teachers, researchers, volunteers), training and research.

5) *Scholarships and student costs in donor countries* – provision of financial assistance to certain students and fellows registered at private or public institutions of higher or professional education. The training can be in the form of trips, short-term training in the field, attending special non-academic courses and seminars and so on.

6) *Debt relief* is an agreement between creditors on the alleviation of the debt burden of borrowers either in the form of rescheduling (lengthening the time of debt repayment), forgiving or dismissing part of the loan for a specific date, or restructuring of debt. Restructuring of debt is a result of a bilateral agreement between a creditor and a borrower on altering the terms of debt repayment.

7) *Administrative costs not included elsewhere*. This refers to the administrative costs of development assistance programs not already included under other ODA items but are an integral part of the costs of delivering or implementing the aid provided. This category covers situation analyses and auditing activities.

8) *Other in-donor expenditures that do not give rise to a cross-border flows*. This has two elements: 1) official sector expenditures for the sustenance of refugees in donor countries during the first twelve months of their stay; and 2) funding of activities designed to increase public support, i.e. awareness in the donor country of development co-operation efforts, needs and issues.

If the range of aid modalities is limited to those that give rise to a cross-border financial flows from a donor to a recipient country, it is possible to identify three main forms of aid: 1) budget support; 2) project support; and 3) program support.

In international development assistance a program is a complex of activities aimed at helping developing countries solve developmental issues. Program goals can be set by a recipient country, a multilateral organization, a global fund or a NGO. The programs established by a recipient country can have different foci – national, sector, sub-sector or thematic. As for programs of NGOs, donors can support either the overall program of the organization, e.g. its strategic plan, or a specific program of that organization.

Another key term within aid architecture is the **channel of aid delivery**. The DAC defines it as the first implementing partner in a chain of delivery of financial and other funds within ODA[45] and identifies five types of channels:

1) *public sector institutions* –
   a) donor government – this channel is used for technical assistance, administrative costs and other expenditures that do not give rise to cross-border flows;
   b) recipient government – this channel is used for direct budget support and debt relief operations; and
   c) third country government – this channel is used primarily for providing aid in the framework of trilateral cooperation with single-side financing (see below)

45 OECD-DAC. Channel of Delivery. URL:http://www.oecd.org/document/13/0,3746,en_2649_34447_39245773_1_1_1_1,00.html

2) *NGOs and civil society* – this refers to INGOs, donor country-based NGOs, developing country-based NGOs that receive resources from donors in the form of core contributions to their budgets or support of their thematic programs, and often implement projects using the mechanism of project financing.
3) *Public-private partnerships and networks* – this channel is used for support of their thematic programs.
4) *Multilateral organizations* – this channel is used both for core and non-core earmarked contributions.
5) *Other* – this refers primarily to universities or other teaching institutions, research institutions or think-tanks. This channel is used when providing scholarships, in some programs of technical assistance and funding of activities designed to increase awareness in the donor country of development co-operation efforts, needs and issues.

The chain of aid delivery can be quite complex. A good example is provided by the situation where a donor country gives funds in the form of earmarked financing to a multilateral organization which transfers it to the NGO for the implementation of a humanitarian aid project with the final recipient being the people who suffer from hunger in a developing country. From the perspective of a donor country, the channel of delivery will be a multilateral organization. From the perspective of a multilateral organization, the channel of delivery will be an NGO.

It is important to understand the accounting of different aid modalities in DAC statistics. There is a certain terminological confusion in this field. If not aware of it, it will not be possible to analyze fully any data on ODA flows. This confusion relates to two key terms – **bilateral aid and multilateral aid**.

The development studies literature tends to refer to donor countries as "bilateral donors" and to multilateral organizations as "multilateral donors". However, this does not mean that all bilateral aid is provided by countries, or that all multilateral aid is provided by multilateral organizations. The situation is much more complex.

The meaning of the term "multilateral aid" varies depending on whether or not it refers to the *global system of ODA* or about distribution of aid flows from a given *donor country*. In the first case, it will stand for all funds redistributed by multilateral organizations for development goals (multilateral outflows) that include the funds from specific donors (donor countries – traditional and emerging, NGOs and private foundations), interest income on the past loans, and finally, resources which have been generated on financial markets. In the second case, "multilateral aid" will stand for only those funds that are transferred as core contributions to multilateral organizations (aid type №3.2 in a new DAC Typology – multilateral inflows[46]).

Terminological confusion does not stop there. There is a fundamental difference between "net" *multilateral* aid from donors – regular and obligatory contributions to the budgets of multilateral organizations – *and aid through multilaterals*. The second type includes both multilateral aid and multi-bilateral aid which has been growing in significance in recent years. **Multi-bilateral aid** consists of contributions to thematic programs and funds established and administered by a multilateral organization with a clearly defined sector, thematic or geographic focus, including trust funds.

46 OECD-DAC. 2009. Reporting Directives for the Creditor Reporting System. Addendum on Types of Aid.URL:http://www.oecd.org/dataoecd/11/27/44479737.pdf

It is necessary to define separately the hybrid form of cooperation – trilateral cooperation which also has been proliferating recently.

Trilateral/triangular cooperation is a form of partnership between developing countries in the implementation of a development project/program with support from a developed country or a multilateral organization. The partnership involves three types of actors: 1) traditional donors (DAC members) or multilateral organizations; 2) pivotal countries – large developing countries that provide aid within the framework of South-South cooperation; and 3) beneficiary countries. The real number of participants in this partnership can be more than three. There are two the most common configurations of a "triangle":

a) Traditional donor + emerging donor + developing country-beneficiary; or
b) Multilateral organization + emerging donor + developing country-beneficiary.

Despite the fact that more than three parties can be engaged in triangular cooperation, including multilateral organizations, the form has gained a special status and is not counted as multilateral aid given the particularities of financing modalities. There are three main modalities:

1) co-financing – traditional and emerging donors pool their financial resources within a common fund for the purpose of financing a given development initiative,
2) parallel financing – traditional and emerging donors manage their financial sources separately based on an agreed plan of joint actions, and
3) single-side financing – resources are provided exclusively by a traditional donor whereas an emerging donor is responsible for providing technical assistance services.

Triangular cooperation is considered a very promising form of international development assistance. Today traditional donors that are engaged in triangular cooperation make up roughly two-thirds of the DAC membership with Japan at the top of the list, followed by Germany, Spain, Canada, and the rest. As for new donors, this partnership is welcomed by almost all countries engaged in the South-South cooperation, as well as Russia (the interest of Russia in trilateral cooperation was reflected in the Concept of Russia's participation in IDA of 2007) and some new EU members.

The main financial instruments used in the provision of aid to developing countries are grants and credits.

Credit (loan) is a transfer of resources in cash or in-kind for which repayment is required. Repayment can be made in the borrower's country currency. For a loan to be qualified as ODA it needs to be concessional in character and convey a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent).

Variables entering in grant-element formula are the following:

1) maturity;
2 grace period – the interval between the commitment date and the first repayment date minus the interval between two successive repayments;
3) number of repayments per year;
4) repayment duration;
5) discount rate;
6) interest rate during grace period;

7) interest rate during repayment period; and
8) total number of repayments[47].

Concessionality level is a measure of the "softness" of a credit reflecting the benefit to the borrower compared to a loan provided at the market rate. Technically, it is calculated as the difference between the nominal value of a tied aid credit and the present value of the debt service as of the date of disbursement, calculated at a discount rate applicable to the currency of the transaction and expressed as a percentage of the nominal value. Concessionality level can be increased by extending the grace period, repayment duration and reduction of debt service costs. There are several modalities for repaying debt: 1) repayment of fixed amounts at all repayment dates; 2) repayment of equal amounts at all repayment dates; and 3) repayment of an entire debt (credit amount and interest rates) at the end of repayment period [Larionova 2010, p.61-63, 73].

A grant is a transfer made in cash, goods or services for which no repayment is required[48]. Grants also include debt relief that does not imply new transfers and grants to NGOs, and can include some administrative costs by the donor country and grant-like flows – transactions in which the donor country retains formal title to repayment but has expressed its intention in the commitment to hold the proceeds of repayment in the borrowing country for the benefit of that country.

The use of financial instruments is closely related to the problem of "tying of aid". *Tied aid* refers to those grants and credits provisions which are conditioned in formal or informal agreements. Specialists distinguish between two types of conditionality: input conditionality and output conditionality. In the first case, the recipient's freedom is limited with respect to choice of procurement agencies and markets of goods and services. The recipient is also obliged to comply with all the rules and procedures for procurement of a donor country. The aid provided for commercial purposes is also considered to be tied. In this second case, provision of aid is conditioned upon the commitment of a recipient country to revise certain domestic or foreign policies, or implement certain institutional reforms. A good example is the aid policies of the 1980s and 1990s when donors conditioned development aid upon the willingness of a recipient country to implement radical market reforms, elaborate stabilization, and structural adaptation programs. Apart from tied aid, there is also untied and partially untied aid[49]. *Untied Aid* is ODA for which the associated goods and services may be fully and freely procured in substantially all countries. *Partially Untied Aid* is Official Development Assistance for which the associated goods and services must be procured in the donor country or among a restricted group of other countries, which must however include substantially all aid recipient countries[50]. Partially untied aid is subject to the same disciplines as tied aid credits and associated financing.

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47 Terms Analysis Calculation of the Grant Element. OECD. URL:www.oecd.org/dataoecd/15/0/31738575.pdf. Directives for Reporting to the Aid Activity Database (Creditor Reporting System), OECD. URL: http://www.oecd.org/document/56/0,3343,en_2649_34447_1948088_1_1_1_1,00.html

48 DAC Glossary of Key Terms and Concepts, OECD.URL:http://www.oecd.org/document/32/0,3746,en_2649_33721_42632800_1_1_1_1,00.html#Grant

49 DAC Glossary of Key Terms and Concepts, OECD. URL: http://www.oecd.org/document/32/0,3746,en_2649_33721_42632800_1_1_1_1,00.html#Untied_Aid

50 DAC Glossary of Key Terms and Concepts, OECD. URL: http://www.oecd.org/document/32/0,3746,en_2649_33721_42632800_1_1_1_1,00.html#Partially_Untied

The legal-institutional framework of development assistance cooperation that was described in this lecture is not rigid and fixed. The complexity of international relations regularly forced the agenda-setters – DAC members – to clarify some terms, introduce new ones, expand the aid typology, change the rules of statistical reporting etc. This process will continue. The further complexity of development issues, the structure of the international community, and the acceleration of the process of redistribution of roles in the world economy and politics between developed and developing countries, on the one hand, and state and non-state actors, on the other, increase the probability that the aid architecture in the coming years of the 21st century will only barely resemble its current form.

SELF-CHECK QUESTIONS

1. What is foreign aid? What are the main types of foreign aid?
2. What is Official Development Assistance (ODA)? What are the ODA criteria?
3. What are "Other Official Flows"?
4. What is "Aid for Trade"? What does it consist of?
5. Which categories of donors do you know?
6. Please, provide a typology of donor countries.
7. Please, provide a typology of multilateral donors.
8. How are ODA recipients classified?
9. What is specific about multilateral development banks as participants in international development cooperation?
10. Which UN agencies play primary roles in development assistance?
11. Please, provide a typology of the main aid modalities.
12. How does OECD-DAC define a channel of aid delivery?
13. How do the channels correspond to aid modalities?
14. Why are the terms "bilateral" and "multilateral" aid so confusing?
15. What is multi-bilateral aid? How is it reflected in the DAC statistics?
16. What is trilateral cooperation?
17. What are the main types and financing mechanisms of trilateral cooperation projects?
18. Please, name the main financial instruments used in development assistance?
19. What is a "grant-element"?
20. What is tied/untied/partially untied aid?

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LECTURE №4

COMPOSITION AND DISTRIBUTION OF AID FLOWS: LATEST TRENDS AND CHALLENGES

Lecture outline

1. Gross volumes and distribution by source of finance
2. Distribution by aid modality
3. Distribution by region, country, and income group
4. Distribution by sector
5. Complexity of the composition of aid flows: issues and challenges

The last two decades (1990s and 2000s) have seen some remarkable changes in the sphere of international development assistance. These remarkable changes were brought about by the revision of the international development agenda which occurred during that time frame. There has been a visible diversification of actors actively involved in the process, as well as in the modes of interaction between them. This lecture assesses the scope of those changes, and conceptualizes the challenges that they bring about by examining available statistical data on gross ODA volumes and their distribution by sources of finance, aid modality, region, country, income group, and sector.

1. Gross volumes and distribution by source of finance

Before providing an assessment of the dynamics of global ODA volumes, it is important to say a few words about the quality and the comprehensiveness of the statistical data collected by the donor community. Accurate information about volumes and composition of aid flows is available only for those countries that report to the OECD-DAC. This group includes 23 country members of the DAC and 22 emerging donors – all countries that follow the DAC model (the new EU members, Turkey, Israel, Russia, Iceland, Liechtenstein), Arab donors (Kuwait, Saudi Arabia, United Arab Emirates), and some providers of South-South cooperation, such as Taiwan and Thailand.

A large group of countries (Brazil, China, India, South Africa, Venezuela, Mexico and others) that account for almost all aid from the non-DAC donors do not keep count on their ODA flows according to DAC methodology. Although some of them publish data on financing for development in annual public expenditure documents, they rarely give a detailed description of the terms, accounting methodologies or breakdowns by aid modality and sector. This results in a very high variation in estimates of volumes of aid provided by these countries: the difference sometimes can reach billions of dollars. The upper estimates are likely to include direct foreign investments as well.

Information on aid provided by the universe of private donors is incomplete. Among all private donors only the Bill and Melinda Gates Foundation reports to the DAC according to DAC methodology. The information on multilateral donors is more or less accurate and

complete. But it is important to take into account the difference between the data on 'net' multilateral aid that is included in the reports of the DAC members, and the flows that the multilateral organizations actually administer and distribute. That includes both the regular core contributions by bilateral donors to multilateral organizations and also multi-bilateral aid (contributions to thematic programs and funds, established and administered by the multilateral organizations with a clearly defined sector, thematic or geographic focus) that is reported as bilateral aid. If multilateral development banks are included, another source of aid to consider is the funds that they can generate on international financial markets.

Providing an accurate estimate of gross global volumes of development assistance from all sources is extremely difficult. Information on official development finance can be found in Table 4.1 (below prepared by OECD-DAC). It accounts for both ODA and other development finance (that does not meet the ODA criteria) from the following sources: established donors, multilateral organizations, and emerging donors that report to the DAC. Table 4.1 shows that from 1980 to 2010 ODF volumes increased from US$97.3 billion in 1980 to US$166.8 billion in 2010, whereas ODA volumes increased from US$80.7 billion to US$130.0 billion. Volumes of ODA provided by established donors grew from US$61.2 billion to US$127.3 billion; by multilateral organizations from US$18.1 billion to US$35.2 billion; by non-traditional donors from US$1.4 billion to US$7.2 billion in 2009 and then dropped down to US$2.7 billion in 2010.

Table 4.1. Official development finance provided to developing countries in 1980-2010 (constant 2009 US$ billions)

OFFICIAL DEVELOPMENT FINANCE (ODF)	1980	1985	1990	1995	2000	2005	2010
	97.4	**111.1**	**115.0**	**88.9**	**83.5**	**136.7**	**166.8**
1. Official development assistance (ODA)	80.7	81.1	89.5	73.7	72.8	123.5	130.0
Of which: bilateral donors (a)	62.7	60.4	70.0	51.1	52.9	97.1	94.9
multilateral organizations	18.1	20.7	19.6	22.6	19.9	26.4	35.2
2. Other ODF	16.7	30.0	25.5	15.2	10.7	13.3	36.8
Of which: bilateral donors (a)	5.4	10.5	10.0	10.9	-2.2	12.6	5.4
multilateral organizations	11.2	19.5	15.5	4.3	12.9	0.7	31.4
Total net DAC ODA(b)	**61.2**	**72.3**	**82.7**	**73.0**	**78.0**	**122.3**	**127.3**
Of which: bilateral grants	**31.4**	**41.3**	**49.3**	**46.1**	**48.8**	**94.6**	**86.0**

a) Bilateral flows from DAC countries and non-DAC countries.

b) Comprises bilateral ODA, as above, plus contributions to multilateral organizations in place of ODA disbursements from multilateral organizations as shown above.

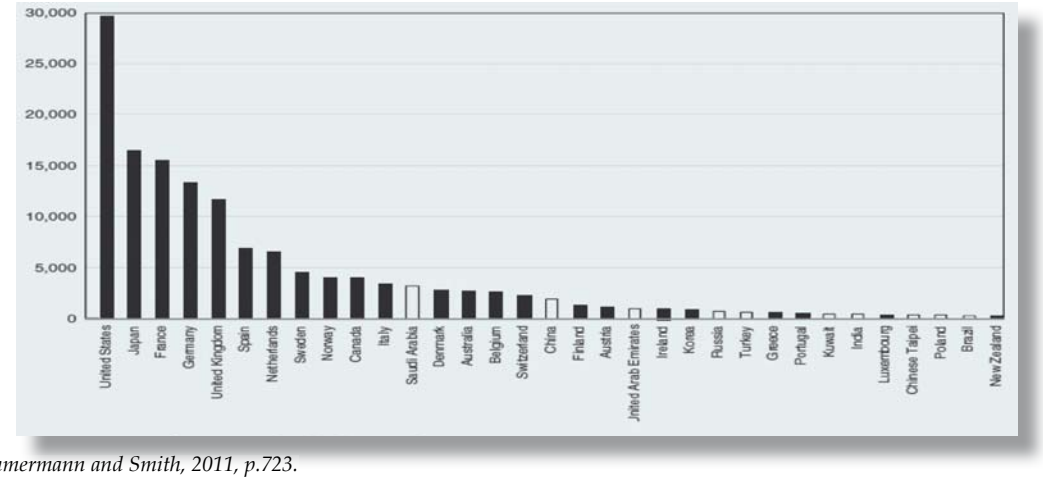
Source: OECD-DAC. Statistics on Resource Flows to Developing Countries. Table 6. Official Development Finance to Developing Countries. URL: http://www.oecd.org/document/9/0,3746,en_2649_34447_1893129_1_1_1_1,00.html

However, this table does not include aid from private sources that totaled US$56 billion in 2010 and from those emerging donors that do not report to the DAC (Brazil, China, India, South Africa, Venezuela and some other countries) that totaled more than US$4 billion in 2009, according to the OECD-DAC estimates. Gross volumes of development finance today amount to US$230 billion.

Below is the description of dynamics of change in aid volumes by different group.

Bilateral donors

Figure 4.1. 2009 Gross ODA Flows of DAC Donors (black) and selected other countries (white), current US$ million.

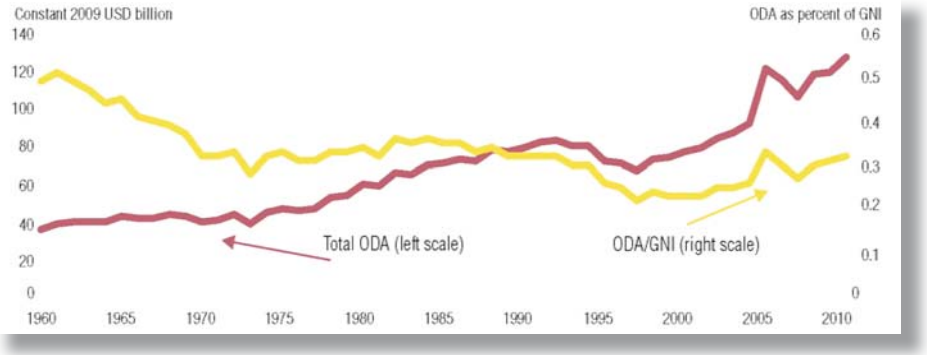


Source: Zimmermann and Smith, 2011, p.723.

Let us analyse the dynamics of volumes of aid provided by each of these two groups.

Established donors. Gross volumes of ODA tripled over 50 years of reporting (according to the OECD-DAC) from US$ 38 billion in 1960 to US$131 billion in 2010. However, this growth was uneven.

Figure 4.2. Gross ODA volumes over 50 years (1960-2010).



Source: OECD. 2011. Development Co-operation Report 2011: 50th Anniversary Edition, OECD Publishing, Paris, p.222

In the period between 1960 and 1973 the volume of aid stagnated. A rapid growth started only in 1974. It continued until the beginning of the 1990s – global ODA volumes doubled by the end of this period. The end of the Cold War and reflections upon the failures of 1980s resulted in 'aid fatigue', and the de-politicization and de-securitization of aid, which, in its turn, brought about the first ever noticeable and long-lasting decrease in aid volumes that continued up to 1997. This decrease reflected a drastic decrease of American ODA volumes. After 1997, that trend was reversed due to the introduction of a new aid doctrine based on the MDGs and the terrorist attacks of 9/11 that forced traditional donors to make significant increases in volumes of aid. Aid started to be perceived as an important tool in

the Global War on Terror. The increase was declared to be an official goal at the Monterrey Conference in 2002, the G8 summit in Gleneagles in 2005 and the Millennium Summit of 2005. In 2005, ODA volumes reached peak figures in the pre-crisis period due to the record-high volumes of debt relief – US$26 billion (with most of the debt relief provided to Iraq and Nigeria). In 2007 DAC members and multilateral organizations provided US$9.7 billion of debt relief to developing countries, whereas in 2009 only US$2.7 billion was provided. The decrease in debt relief resulted in the overall decrease of ODA. The financial crisis, however, did not have an immediate impact on gross ODA flows: after a short decrease in 2006-2007, ODA volumes started rising and reached their historical maximum of US$131 billion in 2010. Overall, gross ODA volumes increased by 63 percent between 2000 and 2010.

However, this trend proved to be unsustainable. According to preliminary estimates due to the debt crisis in Europe and a growing budget deficit in the United States, gross ODA declined by 2.7 percent in 2011 – for the first time since 1997.

ODA/GNI ratio. As early as 1958 the World Council of Churches[51] called on the donor countries to allocate 1 percent of their GNI for aid to developing countries, while differentiating between aid from public and private sources. Afraid of high volatility of private flows, developing countries wanted to set the target for ODA separately as 0.75 percent of GNI. In the late 1960s this idea was advanced by the Pearson Commission but the target was lowered to 0.7 percent[52]. By 1970s this target was accepted by most donors. However, Japan, United States, Australia, New Zealand, Switzerland and South Korea did not make any commitments to that target.

Unlike gross volumes of aid, the ODA to GNI ratio followed a totally different dynamic between 1960 and 2010. From 1960 until 1997 the ODA to GNI ratio decreased to 0.3 percent in 1989 and then to a historical low of 0.22 percent in 1997 (it had not exceed 0.4 percent since the mid-1960s). The blame for such bad performance can be put on the largest global donor – the United States, where the ratio decreased the most significantly (from 0.24 to 0.08 percent). However, the situation started improving slowly after 1998. The Global War on Terror and the commitments made by the donors at the G8 Summit in Gleneagles in 2005 played a large role in this respect.

In particular, the fifteen DAC-European Union (EU) members committed to reaching an ambitious minimum country target for ODA of 0.51 percent of their GNI in 2010, and several envisaged higher levels. However, not all the countries honored their commitments. However, when comparing the 2010 ODA to the promises which had been made in 2005, there was a shortfall of about US$19 billion[53]. Moreover, the 0.7 percent target for the DAC members has still proven to be unreachable. In 2010 the ratio of ODA in GNI of the DAC members amounted to 0.32 percent. While this was the highest real ODA level ever, surpassing even the volume provided in 2005 which was boosted by exceptional debt relief, net ODA as a share of gross national income (GNI) was 0.32 percent, equal to 2005 and higher than any other year since 1992. However, in 2011 it declined to 0.31 percent.

51 The World Council of Churches – international ecumenical organization established in 1948 in Amsterdam that comprises 349 Christian churches from 100 countries that represent about 400 million Christians. The headquarters is located in Geneva.

52 The Pearson Commission is the first international commission on international development assistance formed by L.B. Pearson, the former prime-minister of Canada in 1968 upon the invitation by the then President of the World Bank Robert McNamara to review the previous 20 years of development assistance, assess the results, and make recommendations for the future. See more: Pages from World Bank History: The Pearson Commission. URL: http://go.worldbank.org/JYCU8GEWA0

53 DCR-2011. Annex A: DAC Members' Aid Performance in 2010. p.141.

Are these ODA volumes sufficient for addressing the challenges confronting developing countries? First, the gross ODA volumes from the DAC members fall short of the 0.7 percent target. If this target had been reached, the volume of only bilateral aid would have amounted to at least US$ 280 billion annually. Second, the current volume must be increased in order to meet commitments necessary to achieving the MDGs (this alone would require US$195 billion a year, according to the UN estimates)[54]. The aid to the Sub-Saharan Africa must be doubled and sustained at that level to attain the MDG goals.

In the near term, there is little likelihood that aid volumes will reach the level of donors' commitments. Except for the United Kingdom, most established donors do not plan to scale-up their aid programs. According to the OECD's comprehensive survey of the future spending plans of the donors, an indication of the collective forward programming of bilateral and multi-lateral aid through 2013, the findings suggest slower aid growth ahead. Global country programmable aid (CPA) is planned to grow at a real rate of 2 percent per year from 2011 to 2013, compared to 8 percent per year on average over the past three years. The deceleration is likely to be more pronounced for aid to low-income countries and Africa. There the CPA is projected to increase at about 1 percent per year in real terms, compared to a 13 percent annual growth rate in the past three years. Thus, additional aid to these countries is likely to be outpaced by population increases[55].

Emerging donors. For the category of 'emerging' donors the origins of the national programs of economic cooperation with the developing world can be traced back to the Bandung Conference of 1955 at the end of the first decade of the Cold War. As a practical implementation of the Bandung principles, in the late 1950s and early 1960s there emerged national aid programs in Brazil, India, China (categorized today as providers of South-South cooperation); in the rich countries of the Persian Gulf – Kuwait, United Arab Emirates, Saudi Arabia, and, finally in the countries of the former Eastern Bloc. Overall, Arab donors have been among the most generous in the world, with ODA representing, on average, 13 percent of total DAC ODA and nearly three-quarters of non-DAC ODA averaging 1.5 percent of their combined Gross National Incomes (GNI), five times the OECD-DAC average. [World Bank 2010, p. 5-7]. The ratio of ODA to GNI of the countries of the former Eastern Bloc has been much lower than that of the Western countries (0.06 percent in 1980).

Aid between Southern countries declined dramatically during the 1980s. Most states in the global South were coping with high levels of debt, and the effects of inflation. OPEC countries were more constrained. The debt crisis forced countries to turn their attention inwards. Their circumstance significantly reduced South-South cooperation. Under the influence of systemic crises in the USSR and the countries of the Eastern Europe, the volumes of aid provided by the 'Second World' to the 'Third World' decreased significantly. In 1989, after the fall of the Berlin Wall these countries became aid recipients and were included in Part II of the DAC list of ODA recipient countries (the aid to these countries which did not meet the usual ODA criteria was defined as 'official aid'). [Waltz and Ramachandran 2011, p.4].

54 UN Millennium Project. 2005. "Investing in Development: A Practical Plan to Achieve the Millennium Development Goals". New York. p.250 URL: http://www.unmillenniumproject.org/documents/MainReportComplete-lowres.pdf

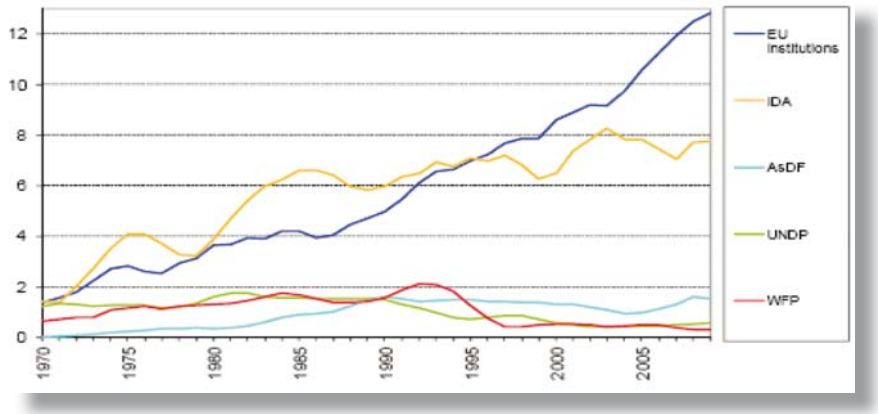
55 OECD. 2011. "Report on Aid Predictability: Survey on Donors' Forward Spending Plans 2011 – 2013." OECD, Paris. URL: http://www.oecd.org/dataoecd/46/53/49565196.pdf

In the 1990s, OECD countries began to dominate as aid donors, representing over 95 percent of all international aid flows. However, by the end of the decade, a Southern presence re-emerged. Dramatic economic growth in many 'Third world' countries (Brazil, India, China, South Africa, Turkey, Venezuela) provided a model for successful development which had not been greatly dependent on the West. Arab donors started boosting their aid programs again at times of a new oil prices increases. The countries of Eastern Europe (Poland, Czech Republic, Hungary, Slovakia, Romania) completed successfully a transition period, started entering the EU and developing their own aid programs, which were oriented primarily towards a transfer of successful experience to neighbor countries. [Waltz and Ramachandran 2011, p.5].

According to the estimates of OECD-DAC experts, the gross volumes of development assistance provided by the emerging donors grew more than twice between 2005 and 2009 (from US$4.6 billion to US$11 billion) [Zimmermann and Smith, 2011, p.724] and amounted to almost 8 percent of ODA provided by the DAC members. These figures cannot be considered complete given the fact that many large donors do not report to the OECD. The highest estimates of aid volumes from emerging donors that may include foreign direct investment (FDI) are many times higher (estimated at about US$41 billion). [Waltz and Ramachandran 2011, p.7].

Multilateral donors. Almost all aid provided by multilateral donors is received from donor countries, whereas their own resources (generated on the financial markets only by development banks) represent a minuscule part of their funds. However, the OECD-DAC collects data on multilateral flows that completes the picture of global aid flows. The figure below shows the dynamics of gross aid volumes from some of the largest multilateral donors – the EU institutions, IDA, ADF, UNDP, and WFP (for 1970-2010). The main trend is the increase in aid provided by the EU, IDA and ADF – rapid in the first case, unstable and slower in the second case, and constant and smooth in the third case. Figure 4.3 also shows the decrease in aid provided by the UNDP and WFP. Overall, the nominal volumes of aid from multilateral donors almost doubled (up from US$19.9 billion in 2000 to US$ 35.1 billion in 2010), but their overall share in the global ODA pool remained the same at 27 percent.

Figure 4.3. ODA by the largest multilateral donors since 1970 (*US$ billion, 2009 prices and exchange rates, 3-year average net disbursements)*



Source: OECD. 2012. Development Aid at a Glance. Statistics by Region. 1. Developing countries. 2012 edition. OECD Publishing, Paris. URL: http://www.oecd.org/dataoecd/59/5/42139479.pdf. p.6

The amounts of aid provided by the largest multilateral donors is also revealing. These largest donors include the international financial institutions, the UN agencies, the EU agencies and global funds.

Table 4.2. Concessional and Non-concessional Flows by Multilateral Organizations[a] US$ million, at current prices and exchange rates

	1994-1995 average	1999-2000 average	2006	2007	2008	2009	2010
Concessional flows							
International Financial Insitutions							
AfDB	625	438	9,797	1,822	1 ,932	3,175	2,345
AsDB	1,287	1,124	1,488	1,768	2,331	2,790	1,930
CarDB	14	34	47	59	83	85	75
EBRD	13	8	11	8	7	-	-
IDA	5,770	5,693	40,310	10,829	9,291	12,793	12,123
IDB Sp.Fund	490	477	514	4 452	552	1 025	1 204
IMF[b]	1 738	905	4,718	521	1,038	2,605	2,973
Nordic Dev.Fund	37	39	73	74	104	76	65
Total IFIs	9,973	8,718	56,959	19,534	15,339	22,549	20,716
United Nations [c]							
IFAD	178	241	348	461	491	399	521
UNAIDS	-	-	181	193	209	243	246
UNDP	529	449	437	439	495	631	613
UNFPA	216	159	214	218	275	348	815
UNHCR	963	373	184	257	278	301	393
UNICEF	797	570	739	982	987	1,104	1,050
UNRWA	339	293	372	388	473	473	545
UNTA	412	441	371	462	645	-	-
WFP	1 244	355	473	233	317	293	244
WHO	-	-	-	-	-	437	366
Other UN[d]	-	-	74	82	120	121	151
Total UN	4,678	2,882	3,392	3,715	4,291	4,348	4,943
EU Institutions	4,841	5,001	10,132	11,435	12,868	13,024	12,570
GAVI	-	-	-	968	748	501	783
GEF[e]	-	-	557	1 062	814	711	530
Global Fund	-	-	1,254	1,627	2,172	2,337	3,031
Montreal Protocol	-	50	81	94	76	29	21
Arab Funds[f]	357	221	680	751	1,790	1,827	1,864
TOTAL concessional	19,849	16,872	73,056	39,187	38,097	45,327	44,457
Non-concessional flows							
AfDB	1,264	614	825	1,398	1,121	3,626	2,042
AsDB	2,472	3,296	4,420	5,234	6,472	7,898	5,272
CarDB	15	71	84	102	101	114	247
EBRD	199	402	1,349	2,227	2,759	3,606	3,629

EU Insitutions	346	732	3,286	5,997	4,284	833	942
IBRD	10,461	12,518	11,533	9,990	13,393	21,408	26,511
IDB	4,731	7,298	6,080	6,715	7,158	11,415	10,352
IFAD	-	37	39	40	53	38	44
IFC	1,334	1,436	3,768	4,322	5,022	4,471	4,184
Arab Funds[f]	-	-	-	-	-	362	1,983
TOTAL non-concessional	**20,821**	**26,406**	**31,385**	**36,025**	**40,364**	**53,771**	**55,206**

a) To countries and territories on the DAC List of ODA Recipients.

b) IMF concessional trust funds.

c) The data for UN agencies have been reviewed to include only regular budget expenditures. This has led to revisions of UNDP data since 1990. For WFP and UNHCR revisions have only been possible from 1996 onwards, while for UNICEF the data are revised from 1997. Since 2000, UNHCR operates an Annual Programme Budget which includes country operations, global operations and administrative costs under a unified budget. However, data shown for UNHCR as of 2004 cover expenditures from unrestricted or broadly earmarked funds only. For UNFPA, data prior to 2004 include regular budget and other expenditures

d) IAEA, UNECE and UNPBF.

e) The data for GEF are on a commitment basis and cover commitments from all implementing agencies.

f) AFESD, BADEA, Isl. Dev. Bank and OFID.

Source: OECD-DAC. Statistics on Resource Flows to Developing Countries. Table 17 - Concessional and Non-Concessional Flows by Multilateral Organizations. URL:http://www.oecd.org/document/9/0,3746,en_2649_34447_1893129_1_1_1_1,00.html

Private sources of development finance. The increase in volumes of development assistance provided by private sources – foundations, philanthropic organizations, NGOs, universities and corporations has become one of the main trends of the last two decades. Private philanthropic organizations from developing countries (China, India, Arab countries) also got actively involved in this process. The volumes of development assistance provided by private donors tripled over the last 6 years and reached US$56 billion, which amounted to 40 percent of global ODA provided by both established and emerging donors and was almost twice the ODA provided by the largest donor in the world, the United States. It is remarkable that American private donors account for US$39 billion, while the private donors from all other countries account for only for US$17 billion. The volumes of aid from American individuals and funds/organizations that they establish exceed the volumes of aid provided by the U.S. government[56].

It is worth saying a few words about NGOs as well. Although NGOs, especially the religious ones, were always active in providing humanitarian aid, the scope of their activities broadened over the last two decades. NGOs are present now in all spheres of international development assistance. There are also international NGOs which are capable of mobilizing financial funds in larger volumes than some of the DAC members. For example, the core budget of the INGO 'World Vision International' exceeds the volumes of ODA provided by Italy, Australia, Switzerland, Belgium, Austria, Finland, Portugal, Greece, and Ireland. The number of NGOs have increased many times over the last decades. Their role in development finance also became more prominent. The volumes of grants provided by

56 Hudson Institute. Center for Global Prosperity. 2012. Index of Global Philanthropy and Remittances 2012. p.5. URL: http://www.hudson.org/files/publications/2012IndexofGlobalPhilanthropyandRemittances.pdf

NGOs increased from US$5 billion in 1992 to US$24 billion in 2008.

The NGOs are financed by multiple sources. Some NGOs receive financing from donor countries (financing NGOs is one of the recognized aid modalities and NGOs compete with each other to obtain these funds). Other NGOs receive funding from private individuals and foundations such as the Bill and Melinda Gates Foundation, the Gatsby Foundation etc.

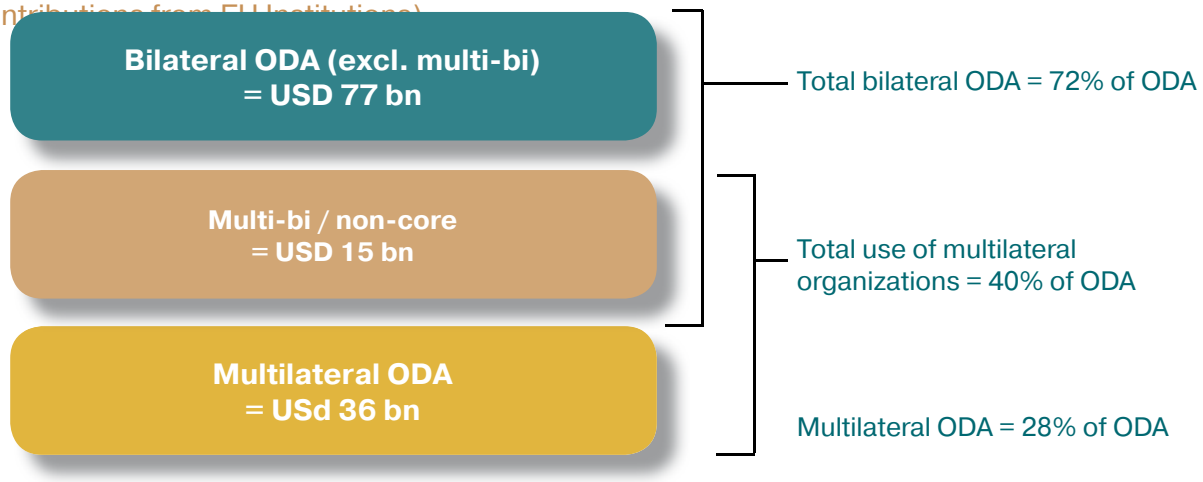
2. Distribution by aid modality

The most important parameter of the distribution of aid flows is the breakdown by aid modality. Any analysis of this component should begin with distinguishing between bilateral and 'net' multilateral aid. It is also necessary to take into account that multi-bilateral aid channeled through multilateral organizations is reported as bilateral aid in statistical databases.

Established donors. The composition of aid from 'traditional donors' changed over the last two decades. In the 1990s, the proportion of bilateral aid decreased (it reached the minimum of 67 percent in 2001), but increased overall in the 2000s when it reached 72 percent in 2009. The share of 'net' multilateral aid (excluding debt relief) grew in 1990s and peaked at 33 percent in 2001. Overall in the 2000s it leveled out at 28 percent. If we exclude contributions to EU institutions, there is a considerable decrease in aid of this type from 25 percent to 19 percent.

From the perspective of distribution by channel, aid through multilaterals, including core and non-core contributions, increased from 37 percent (US$47 billion in 2007) to 40 percent (US$51 billion) – a historical record. This occurred mainly due to the increase in the share of earmarked financing up to 12 percent of all aid channeled through multilateral organizations that administer global funds and programs, and trust-funds with country, region or sector earmarking. In 2009, 70 percent of all country-programmable aid through multilateral organizations was channeled to fragile states. This increase is especially significant given the overall decrease in the share of 'net' multilateral aid.

Figure 4.4. Gross ODA disbursements by the DAC members, 2009 (excluding debt relief, contributions from EU Institutions)



Source: OECD. 2011. 2011 DAC Report on Multilateral Aid. OECD Publishing, Paris. p.30.

URL: http://www.oecd.org/dataoecd/5/61/49014277.pdf

As for the breakdown of 'net' multilateral aid by organization, the changes throughout the last two decades are shown clearly in the table below.

Table 4.3. Official development assistance from the DAC countries to multilateral organizations, by decades (1970-2009) (Net disbursements)

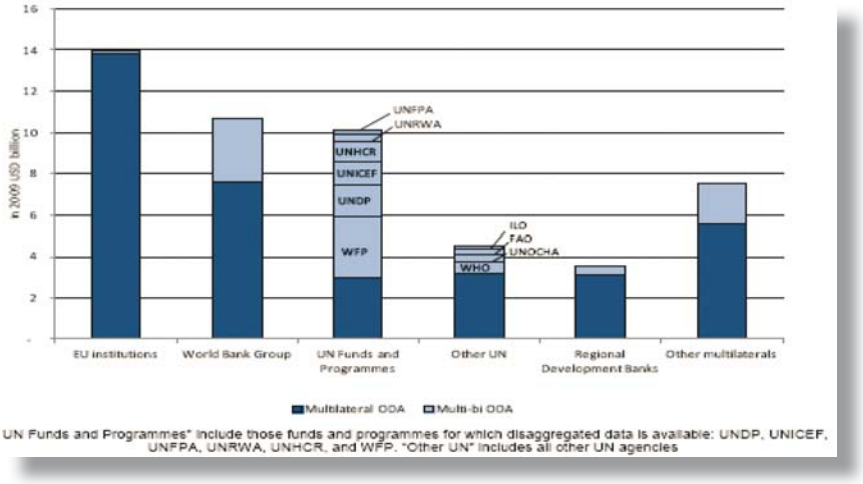
	1970-79		1980-89		1990-99		2000-09	
	US$ million	percentages of total	US$ million	percentages of total	US$ million	percentages of total	US$ million	percentages of total
TOTAL	13,884		22,098		23,901		29,953	
World Bank Group	5,305	38.2	7,726	35	6,705	28	6,457	21.6
Regional Development Banks	382	2.7	3216	14.5	2522	10,6	2704	9
United Nations agencies	3,640	26.3	5,963	27	6,082	25.4	6,456	21.6
EEC/EU	2,270	16.3	4,229	19.1	6,720	28.1	10,579	35.3
Other institutions	2,287	16.5	964	4.4	1,872	7.9	3,757	12.5

Source: OECD. 2011. "Development Co-operation Report 2011: 50th Anniversary Edition". OECD Publishing, Paris. p.230-231. URL: http://www.oecd.org/document/62/0,3746,en_2649_33721_42195902_1_1_1_1,00.html

In 2009, 81 percent of "net" multilateral aid was concentrated in five key clusters of multilateral organizations: European Development Fund + EU ODA budget (37 percent), IDA (21 percent), UN funds and programs (10 percent), AfDB and ADB (5 percent and 3 percent respectively), and the Global Fund (6 percent). The other organizations (more than 200), most of which provide technical assistance, account for the remaining 19 percent. It is also important to be aware of the shares of 'net' multilateral and multi-bilateral (non-core funding) in the pool of ODA provided by multilateral organizations. This component of aid distribution is clearly illustrated in the diagram below with "net" multilateral aid marked in dark blue and non-core funding in light blue color. It is clear that non-core funding accounts for a minuscule share of funds provided by the EU (regular contributions to the budget of the accounts of members amounted to almost 100 percent), 25 percent for the World Bank Group, 70 percent for UN funds and programs, and slightly less than a third for other UN agencies, such as ILO, WHO, FAO.

The volumes of aid channeled to/through NGOs by traditional donors quadrupled over the period between 2004 and 2010 (from US$3.9 billion to US$16.2 billion). The share of aid channeled in such a manner tripled (from 4 percent to 12.3 percent). The DAC members provided around five times more aid to NGOs based in their countries (national NGOs) than to both international NGOs and local NGOs in developing countries. For quite a long time data on INGOs and local NGOs were placed in one category in the DAC database. In order to get a more accurate picture of aid flows for NGOs in the future, in 2010 the DAC agreed to a new typology of aid for NGOs by adding a third category, 'aid

Figure 4.5. Total use of the multilateral system in 2009 and distribution between "net" multilateral and bilateral aid (2009 US$ billion)



Source: OECD. 2011. "2011 DAC Report on Multilateral Aid". Paris: OECD Publishing.
URL: http://www.oecd.org/dataoecd/5/61/49014277.pdf

allocated directly to developing country-based NGOs.' The DAC members take different approaches to dealing with NGOs, ranging from determining where NGOs will work and in which sectors, to letting the NGOs decide these things for themselves.

Emerging donors. Three groups of emerging donors adhere to different principles and goals and choose different channels of aid delivery. For example, twelve new EU members provided 65 percent of their aid through multilaterals in 2010. In some countries this share was even larger – 75 percent in Hungary and Poland, and 65 percent in Slovenia. Most aid is used for supporting EU development programs. The largest countries that follow the DAC model but are non-members of the EU – Russia, Turkey and Israel, on the contrary, prefer bilateral channels. The share of bilateral aid in Russia amounts to 64 percent, which is close to the DAC average, whereas Turkey and Israel channel through bilateral channels respectively 95 percent and 88 percent of their aid[57]. The average ratio of bilateral to multilateral ODA over the period between 1973 and 2008 was 87:13, but changed in the last 15 years. Over the period between 1995 and 2007, it amounted to 89:11, and in 2008 it reached 95:5.

Of the Arab ODA that is channeled through multilateral sources, some 4 percent has been transmitted through Arab financial institutions - 4 percent through the World Bank, 2 percent through UN agencies, and just under 1 percent through the African Development Bank (AfDB). Contributions to Arab financial institutions almost quadrupled since the 1970s [World Bank 2010, p.14].

The approaches of the last group of new donors – providers of South-South cooperation are totally different. India and China, for example, prefer to implement bilateral programs, although their contribution to concessional funds, such as IDA, are constantly increasing. Brazil, on the contrary, channels 75 percent of its aid to multilateral organizations, primarily to the Mercosur.

57 OECD-DAC. Statistics on Resource Flows to Developing Countries. Table 33 – ODA from Non-DAC Donors URL: http://www.oecd.org/document/9/0,3746,en_2649_34447_1893129_1_1_1_1,00.html

Table.4.4. Distribution of ODA from multilateral institutions by channel (according to OECD-DAC typology)

	2003	2003	2010	2010
	(US$ billion)	percentages of total	(US$ billion)	percentages of total
Public institutions	2.85	17	9.0	21.4
NGOs and civil society	0.02	(0.001)	2.2	5.2
Public-private partnerships	N/D	N/D	0.05	(0.001)
Multilateral institutions	0.65	4	6.5	15.5
Other	0.02	(0.001)	2.2	5.2
Non-specified	13	79	22.0	52.4
ALL CHANNELS	**16,5**	**100**	**42,0**	**100**

Source: OECD. Creditor Reporting System online. URL: http://stats.oecd.org/Index.aspx?datasetcode=CRS1

3. Distribution by region, country and income group

Established donors. Regional distributions of aid flows from traditional donors have changed significantly over the last decades. In the 1960s the largest share of aid was directed to the countries of South and Central Asia (more than 20 percent). By the 2010s the share for this region decreased more than two times. The decrease of the share for South and Central Asia, as well as East Asia, was due mainly to the success of economic development in China and India, and the fact that these countries got greater access to international credit markets. Since the 1970s, Sub-Saharan Africa became a leader in attracting aid, and the share for this region continues to increase. Over the last decade, Sub-Saharan Africa accounted for 39 percent of global ODA from the DAC members. The increased share for this region is explained by the policies of national and multilateral donors aimed at addressing the social challenges confronting the poorest countries of this continent. Multilateral donors are more focused on this region than are the DAC members. The share of aid to the Middle East and North Africa is volatile. In the 1960s, its share was only 4 percent. In the 1970 and 1980s it increased up to 13-14 percent, then went down to 8 percent over the 1990s. In the 2000s, this region became the second largest recipient of development aid with 16 percent of all disbursements.

Table 4.5. Regional distribution of official development assistance by individual DAC donors (1970-2009, percentages of total net disbursements)

	Sub-Saharan Afriaca	South &Central Asia	Other Asia and Oceania	Middle East and North Africa	Europe	Latin America and Caribbean
1970-79	24.8	24.4	22.5	15.2	2.7	10.4
1980-89	34.2	19.7	17.3	15.7	2.1	11.1
1990-99	34.6	14.0	20.8	14.7	4.3	11.6
2000-09	41.0	15.3	11.7	16.7	6.2	9.1

Source: OECD. 2011. Development Co-operation Report 2011: 50th Anniversary Edition, OECD Publishing, Paris. p.232-233. URL: http://www.oecd.org/document/62/0,3746,en_2649_33721_42195902_1_1_1_1,00.html

The primary focus of donors on African countries does not necessarily mean that they are top recipients of ODA. According to the data for the last 3 years (Table 4.6), 6 of the 10 top recipients represent other regions – the Middle East; South, Central and South-East Asia. Countries which were top recipients are Afghanistan, Iraq, Vietnam, Palestine (the West Bank and Gaza), India, and Pakistan.

Table 4.6. Top 10 ODA recipients – US$ million, receipts from all donors, net ODA receipts

		2006	2009	2010	3 year Average	Percentages of all recipients
1	Afghanistan	4875	6235	6374	5828	5
2	Iraq	9884	2791	2192	4956	4
3	Ethiopia	3329	3819	3529	3559	3
4	Vietnam	2552	3732	2945	3076	2
5	Tanzania	2331	2933	2961	2742	2
6	West Bank and Gaza	2470	2817	2519	2602	2
7	DRC	1766	2357	3413	2512	2
8	India	2117	2500	2807	2475	2
9	Pakistan	1440	2769	3021	2446	2
10	Sudan	2566	2351	2055	2324	2
	Other recipients	94476	94664	99271	96137	75
	Total ODA recipients	**127916**	**126968**	**131087**	**128657**	**100**

Source. 2012. Development Aid at a Glance. Statistics by Region. 1. Developing countries. 2012 edition. OECD Publishing. Paris. URL: http://www.oecd.org/dataoecd/59/5/42139479.pdf. p.6

The data on changes in the distribution of aid flows by income group over the last forty years gives the following picture. Over those years, only the share of the least developed countries changed considerably (from 32 percent to 39.2 percent). The shares of other groups decreased but not significantly (1.5 percent for other low income countries, 4.4 percent for lower middle income countries and 1.1 percent for upper middle income countries). However, in comparison with the 1990s, the last decade saw a significant increase of LICs' share and a significant decrease of the share of lower middle income countries (almost 9 percent), and a small increase in share of upper middle income countries (by 1.1 percent).

Table 4.7. Distribution of official development assistance by income group (1970-2009) (Net disbursements as a percentage of total ODA)

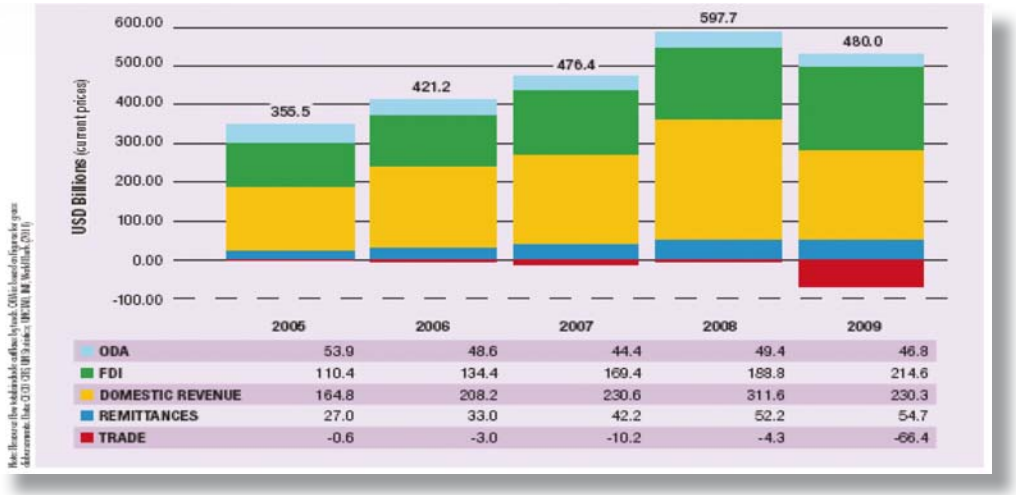
	1970-79	1980-89	1990-99	2000-09
Least developed countries	32.2	39.3	34.0	39.2
Other low-income countries	16.2	11.1	11.8	14.7
Lower middle income countries	42.4	41.1	47.2	38.0
Upper middle income countries	9.2	8.5	7.0	8.1

Source: OECD. 2011. Development Co-operation Report 2011: 50th Anniversary Edition, OECD Publishing, Paris. p.234-235. URL: http://dx.doi.org/10.1787/888932514684

As of 2010, the breakdown of country allocable aid by income group is the following: the least developed countries, 49 percent; other low income countries, 16 percent; lower middle income countries, 27 percent; upper middle income countries, 8 percent.

One of the most important parameters of the distribution of aid flows is the share to fragile and conflict-affected states that are lagging behind the most in achieving the MDGs and which require special attention for geostrategic reasons. Cumulative ODA volumes of aid to these countries tends to decrease, whereas the volume of other types of financial flows, such as remittances and foreign direct investments increase.

Figure 4.6. Resource Flows to Fragile States (2005-2009, US$ billion)



Source: OECD. 2011. "Ensuring Fragile States Are Not Left Behind. 2011 Factsheet on Resource Flows in Fragile States". URL:http://www.oecd.org/document/20/0,3746,en_2649_33693550_49406804_1_1_1_1,00.html

Emerging donors. *Emerging donors following the DAC model*. Geographic priorities of the largest group within this category – the new EU donors – differ significantly from the priorities of the EU DAC members. While EU DAC members prioritize Africa, emerging donors in the EU prefer to provide aid to the Balkan countries and to the former Soviet Republics. The most important partners beyond their immediate neighborhoods are the countries where these donors participate in multilateral stability operations (Afghanistan and Iraq) and countries with a previous socialist experience [Lundsgaarde 2011, p.2].

The Turkish aid program is focused on providing aid to neighbor countries and strategically important partners. But Turkish aid to African countries also has started to rise. The geographic distribution of Turkish aid flows are the following: South and Central Asia (52 percent), Middle East and North Africa (19 percent), Europe (15 percent), Sub-Saharan Africa (6 percent), South East Asia and Oceania (3 percent), Latin America and the Caribbean(8 percent), and other Asia and Oceania (2 percent). The ten top recipients of Turkish aid are Afghanistan, Kyrgyzstan, Kazakhstan, Iraq, Pakistan, Azerbaijan, Palestine, Bosnia-Herzegovina, Lebanon, and Turkmenistan. The geographic priorities of Israel are radically different from those of Turkey: the Middle East and North Africa, (36 percent), Sub-Saharan Africa (31 percent), Europe (15 percent), South and Central Asia (8 percent,) Latin America and the Caribbean (8 percent), other Asia and Oceania (2 percent). The ten top recipients of Israeli aid are: Jordan, Ethiopia, Ukraine, Eritrea, Sudan, Lebanon, Belarus, Uzbekistan, Georgia, and China.

Arab donors. Arab donors traditionally have had a regional focus. Most aid by Arab donors is still provided to the countries of the Middle East and North Africa. However, the focus of their aid programs have recently become more global. Implementing the

principle of strengthening Afro-Arab solidarity, they have increased their volume of aid to the poorest countries of Sub-Saharan Africa and have implemented aid programs in the South, South-East Asia (Vietnam), and in Central Asia. The Kuwait Fund, the Saudi Arabia Fund and the OPEC fund – the institutions that have the most global focus – also finance individual projects in Europe and Latin America. On the average, the regional distribution of Arab aid over the period of 2000 through 2007 was the following: the Middle East (61 percent), North Africa (15 percent), Sub-Saharan Africa (10 percent), Asia (9 percent), Europe (4 percent), Latin America (1 percent) [World Bank 2010, p.13-15].

Providers of South-South cooperation. With the exception of China that aspires to become a global power in the future, providers of South-South cooperation tend to focus initially on the implementation of aid programs in the neighbor countries, and then engage partners located on other continents, primarily, on Sub-Saharan Africa.

Multilateral donors. Regional distribution of aid from key multilateral donors (the EU institutions, international financial institutions (IDA, the concessional windows of regional development banks, the IMF), global funds (GAVI Alliance, Global Fund, Global Environmental Facility) and the UN agencies differ significantly from the aid composition of the DAC members (See Table 4.8)

Table 4.8. Regional Distribution of ODA by Individual DAC Donors and Multilateral Agencies in 1999-2010[a] (percentages)

	Sub-Saharan Africa			South and Central Asia			Other Asia and Oceania			Middle East and North Africa			Europe			Latin America and Caribbean		
	1999 - 2000	2004 - 2005	2009 - 2010	1999 - 2000	2004 - 2005	2009 - 2010	1999 - 2000	2004 - 2005	2009 - 2010	1999 - 2000	2004 - 2005	2009 - 2010	1999 - 2000	2004 - 2005	2009 - 2010	1999 - 2000	2004 - 2005	2009 - 2010
TOTAL DAC KCP	25.8	32.5	36.1	13.0	11.9	19.7	29.2	15.4	16.9	11.2	26.7	11.7	7.6	3.9	4.7	13.2	9.7	10.9
of which																		
DAC-EU	41.6	47.2	45.6	8.8	9.8	14.7	15.0	8.9	11.0	11.9	19.6	11.2	9.4	4.7	5.8	13.3	9.8	11.6
EU Institutions	34.7	43.4	42.1	7.5	10.0	11.0	6.0	5.0	4.1	17.3	18.6	13.5	23.8	14.4	18.9	10.6	8.6	10.4
IFIS[b]	39.5	46.9	54.0	29.6	31.6	23.9	13.0	8.8	10.5	2.6	1.5	1.1	2.7	2.9	1.1	12.5	8.3	9.4
Multi-Trust Funds [c]	-	50.0	55.3	7.2	6.3	16.1	76.0	19.8	15.2	1.6	4.8	2.8	3.3	3.2	2.4	11.9	15.9	8.2
UN agencies[d]	38.2	42.2	45.9	17.0	16.5	17.0	11.4	9.9	7.5	19.6	21.6	20.5	5.0	3.7	3.3	8.9	6.2	5.7
OVERALL TOTAL	29.5	36.0	41.0	15.6	14.7	19.4	23.6	13.5	14.1	10.6	21.9	9.9	8.0	4.6	5.3	12.6	9.4	10.4

a) Excluding amounts unspecified by region

b) International financial institutions. Includes IDA, regional banks' soft windows and IMF (PRGF)

c) Multilateral trust funds. Includes GAVI, GEF, the Global Fund and Montreal Protocol.

d) Includes IAEA, IFAD, UNAIDS, UNDP, UNECE, UNFPA, UNHCR, UNICEF, UNPBF, UNRWA, UNTA, WFP and WHO.

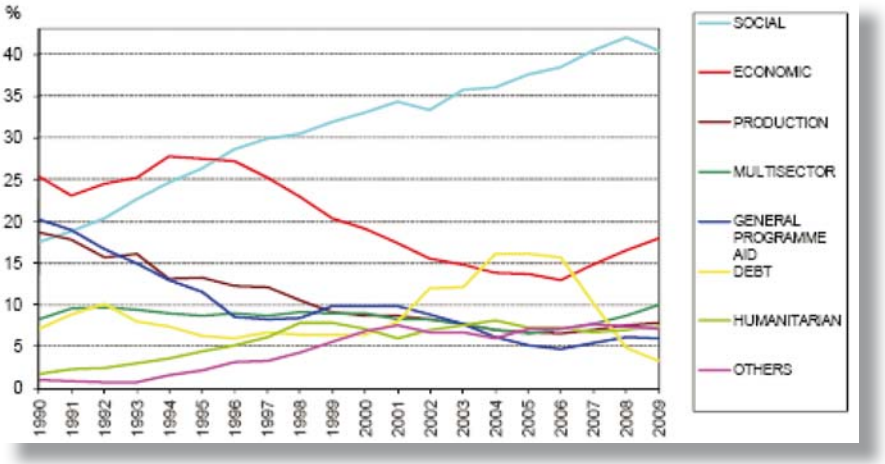
Source: OECD-DAC. Statistics on Resource Flows to Developing Countries. TABLE 27. Regional Distribution of ODA by Individual DAC Donors and Multilateral Agencies http://www.oecd.org/document/9/0,3746,en_2649_34447_1893129_1_1_1_1,00.html

4. Distribution by sector

Established donors. Sector distribution of development aid from established donors underwent significant changes over the last years. In the 1970s and 1980s the priority sectors were social sectors, infrastructure and production that accounted for two-thirds of all ODA. Aid in kind accounted for almost 16 percent. In the 1980s the share for production sectors and aid in-kind decreased (2 and 1.5 times respectively) and the share of debt relief grew considerably, and amounted to 10 percent of global ODA.

In the 1990s and 2000s there was a decrease in the share which went to the economic and production sectors (their share decreased from 25 percent to 19 percent and from 18 percent to 8 percent respectively). The share of programmable and humanitarian aid also decreased: from 20 percent to 4 percent and from 18 percent to 8 percent respectively. These changes were primarily driven by the sharp increase of ODA to social sectors which increased almost 2.5 times over the last years – from 17 percent to 39 percent. If private flows were included, this figure would be significantly higher. Moreover, the mid-2000s were marked by an exceptional boost in debt relief. The debt relief resulted in a decrease of its share which went down to 3 percent as of 2010. It is worth mentioning that administrative costs also increased over the last decades. In 2009 they amounted to US$5.5 billion and exceeded the volume of debt relief (US$2.7 billion), aid in-kind (US$5.1 billion), and aid to refugees (US$3.1 billion).

Figure 4.7. ODA by sector since 1990 (As a percentage of total ODA, 3-year average commitments)

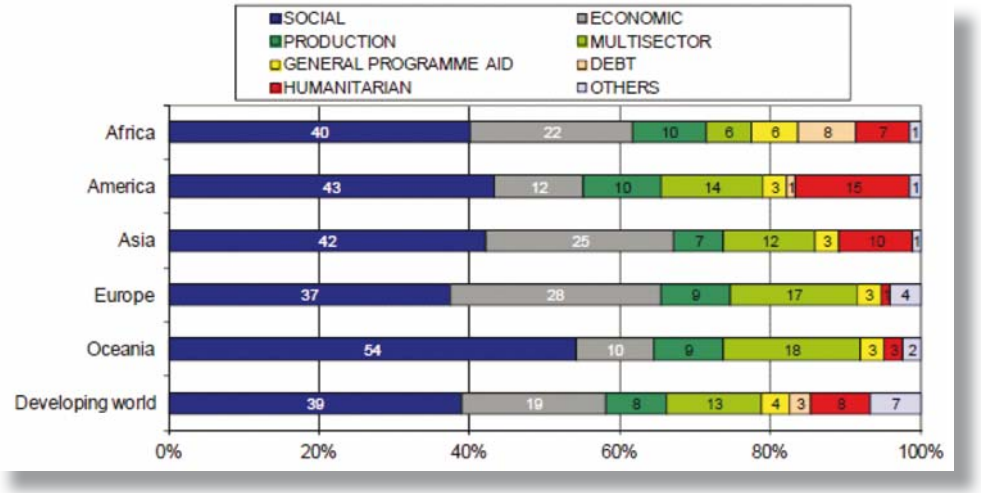


Source: *OECD. 2012. Development Aid at a Glance. Statistics by Region. 1. Developing countries. 2012 edition. OECD Publishing. Paris. URL: http://www.oecd.org/dataoecd/59/5/42139479.pdf. p.10*

Among the social sectors the share for 'governance and civil society', health and population increased the most. Among the economic and production sectors that lost in significance, transport, energy and infrastructure experienced the largest cuts.

The breakdown by sector depends on the region and the income group of a recipient. For example, in the least developed countries the share of aid to social sectors exceeds the average. In 2000s it amounted to 57 percent. The variations in sector distribution between different regions are shown below (2010 data).

Figure 4.8. Distribution of global ODA by region and sector, 2010 (percentages)



Source: OECD. 2012. Development Aid at a Glance. Statistics by Region. 1. Developing countries. 2012 edition. OECD Publishing. Paris. URL: http://www.oecd.org/dataoecd/59/5/42139479.pdf. p.10

Emerging donors. *Emerging donors following the DAC model.* New EU members prioritize such sectors as higher education, good governance and democracy promotion, and environmental protection. Many emerging donors emphasize their willingness to share their experiences of making a transition to democracy and of building a market economy. Democracy promotion is the primary focus of bilateral aid from the largest donors within this group – Vyšehrad group members – Poland, Czech Republic, Slovakia, Hungary, as well as from the Baltic States (Poland and Latvia, for example allocate 46 percent and 45 percent of their bilateral aid to the promotion of democracy, and Hungary – one of the least active donors in this field – as much as 25 percent)[58].

Arab donors. Over the decades Arab donors prioritized infrastructure (energy, transport, water), but at the beginning of the 21st century the sector focus of Arab ODA broadened to include agriculture (with emphasis on food security), health, education, and other social services [World Bank 2010, p.15].

Providers of South-South cooperation. Sector priorities of countries included in this category differ considerably from those of traditional donors. Whereas the traditional donors prioritize social sectors, these South-South countries focus on aid to production sectors and infrastructure, and prioritize technical assistance and implementing capacity building projects in the social sectors.

Multilateral donors. As with the regional distribution, the breakdown by sector of aid from multilateral donors differs considerably from sector distribution of aid from established donors. Mainly, this is true for economic sectors. Their share is well below the DAC average for the EU institutions (10.1 percent vs. 17.2 percent), and almost twice as high in the World Bank (IDA + IBRD) and regional development banks (37.9 and 41 percent respectively). Another difference is that the EU institutions prioritize production sectors (11,.5 percent vs. 7.7 percent - the DAC average) and humanitarian aid (12.1 percent vs. 8.9 percent), whereas the share of humanitarian aid in assistance provided by the multilateral financial institutions is significantly lower (2.0 percent for IDA and IBRD and 0.9 percent for regional development banks).

58 Petrova, Tsveta, 2011. "The New Role of Central and Eastern Europe in International Democracy Support". Washington, D.C.: Carnegie Endowment for International Peace, p.11

5. Complexity of the composition of aid flows: issues and challenges

The massive increase in gross ODA volumes that almost doubled over the 2000s and reached peak levels is, obviously, the most important trend of the last decade. It is often presented as a historical achievement and described in a very positive way. However, the question arises about what are the driving forces behind this increase in development finance and its associated risks.

Let us provide a brief overview of the five main recent trends in the field of international development assistance and identify those that represent long-term challenges.

The first trend is that the global aid architecture has become much more complex. This complexity is reflected in the diversification of the channels of aid delivery. This in turn includes:

1) There has been a huge increase in aid provided by private donors, including private foundations and NGOs, as a percentage of that global development finance. This privatization of aid is a major change in recent years. It contributes to the diversification of channels of aid delivery.
2) There has been a major increase in the activities of the global funds established by corporations and individuals both independently and in partnership with national and multilateral organizations.
3) Another significant change is the increase in the number of multilateral donors: currently multilateral aid is provided by at least 242 organizations, (and counting) and includes 24 development banks and about 40 UN agencies.
4) There has been a large increase in the number of donor countries (There were 4 in the 1940s and there are now more than 50 at the beginning of the 21st century with 30 additional donors categorized as emerging).

The increase in donor countries merits closer examination. The role of such countries as Brazil, Russia, India, China, South Africa, Turkey, and Saudi Arabia is important not only for their financial and human resources, but also for the value they bring as regional leaders. While assessing their role in global aid architecture it is important to take into account both the volume of their contribution to the global aid pool and their unique and successful experience in addressing development challenges and history of collaboration with traditional donors.

New donors often have their own views about goals, principles, priorities and modalities of providing assistance. While these countries have a lot to learn from traditional donors, especially in terms of the 'rules of the game', their fresh look at addressing old challenges helps accelerate reforms and increases the effectiveness of aid. However, the risk exists that developing countries that already have to interact with numerous donors will have to face even larger problems of aid fragmentation. To prevent that, emerging and established donors will have to address the issue of coordination. If both groups of donors learn to coordinate their efforts, despite their systemic differences, all parties will win (this question will be discussed in greater detail in Lecture #7).

The second trend is the diversification of donors which leads to further fragmentation and dispersion of aid. The number of donors is increasing faster than the volume of funds provided to developing countries. Moreover, the number of bilateral donors, multilateral

organizations, and various aid funds and programs exceeds by far the number of recipient countries. According to the OECD-DAC 2011 report, the average number of donors present in each developing country was 21 (11 DAC countries and 10 multilateral agencies). However, it is important to note that there is a large variation across regions. Countries in Asia and Africa have the highest number of donors present (on average 26 and 24 donors per country respectively), while the small island states in the Americas and Oceania lower the averages of these regions (17 for the Americas and 8 for Oceania). In 2009, the average donor was present in 71 out of 152 ODA-eligible countries (73 for the DAC countries and 69 for multilateral agencies).The global fragmentation ratio is 40 percent. Global fragmentation means that two out of every five donor-partner country relations are non-significant. Fragmentation at the global level stems mostly from bilateral sources, since nearly half (45 percent) of bilateral aid relations are non-significant compared to one-third (34 percent) of multilateral aid relations respectively[59].

In fact, each donor uses its own reporting system and unique procedures of implementation, monitoring and evaluation which makes receiving aid even more difficult for developing countries. The increase in administration costs related to attracting and administering aid flows in recipient countries is particularly risky in the poorest countries which have weak institutions.

The third trend is reflected in the circumstance of a relative reduction in 'net' multilateral aid accompanied by an increase in non-core financing. This trend raises legitimate concerns. This circumstance creates additional difficulties for multilateral organizations, limits their freedom in choosing recipient countries and aid modalities, and increases transaction costs, including costs of coordinating their efforts with bilateral donors that provide non-core financing, management, monitoring, and reporting. Since 1993 the increase in earmarked contributions to the UN amounted to 200 percent, whereas the core contribution increased only by 5 percent. The decrease in multilateral aid provided by the DAC members is compensated to a certain extent by the increase in multilateral aid provided by the 'emerging' donors; notably, the Arab states. The resource base of multilateral donors has also become fragmented. Apart from the increase in the share of earmarked funds in the contributions of the DAC donors to the UN, there is an increase in the share of resources that come from INGOs and other private sources. Since 1993, this source has grown from 13 percent to 26 percent.

The fourth trend is the growing dependence of developing countries on the influx of foreign capital – both from official and private sources. This raises the issue of volatility and predictability of aid to the forefront of international development agenda. Aid volatility stems from:

- the conditionality of aid,
- the political challenges within recipient countries that can force them to request additional aid funds for organizing elections, for post-conflict reconstruction and so on,
- the unexpected occurrence of natural disasters such as earthquakes, tsunami, droughts etc.,

59 OECD. 2011." 2011 OECD Report on Division of Labour: Addressing Cross-country Fragmentation of Aid". OECD Publishing, Paris. URL: http://www.oecd.org/dataoecd/6/14/49106391.pdf

- the unexpected presence of humanitarian disasters caused by ethnic conflicts and civil wars,
- political regime change in recipient countries,
- increased population growth in poor countries with already large populations,
- donor herding,
- the high concentration of aid from one source (when more than 50 percent of bilateral aid received by a given country is provided by a single donor country),
- the geopolitical goals of the largest donor countries that define their preferences towards certain recipient countries[60].

Research on the volatility of aid shows that aid flows to developing countries are more volatile than budget incomes, household consumption rates or GNI growth[61]. Aid was more volatile in the low-income countries in the 1970s through the 1990s than the influx of foreign direct investment or other private flows[62]. Aid volatility has such negative consequences in developing countries that it can result in the deterioration of public finance systems, and a shift from investments to consumption in public expenditure. The lack of aid (the provision of less funds than-expected) brings about cuts in public expenditure and raises the tax burdens. Moreover, the unpredictability of aid within a single year also can spill over into multiple years.

The influx of private capital is directly dependent on macroeconomic strengths in both recipient and donor countries and their business cycles. If aid flows remain unpredictable, and do not compensate for the negative effects of the outflow of private capital during financial and economic crises or shocks of a non-economic nature the negative situation impacts both donors and recipients. Low predictability of international development aid in short-term perspective does not allow recipient countries to predict their budget expenditures for a given year. However, aid fluctuations can have more serious consequences; notably, related to the financing of long-term development programs in poor countries. The Paris Declaration stressed the need to coordinate donors' efforts and increase aid predictability. However, in spite of the initiatives of developed countries and international organizations, aid volatility continues to increase with its broad negative effects.

The fifth trend is the challenge of untying aid. This challenge is far from being met. Tied aid raises the costs of purchasing goods and services by up to 15 percent to 30 percent. For food aid for developing countries it can be up to 40 percent. These costs can be even higher since these figures do not include significant indirect costs of tied aid such as high transaction costs. Another shortcoming of tied aid is that donor countries often pursue their commercial interests that sometimes are in conflict with the priorities of the aid recipient country. In 2001, the OECD-DAC adopted some recommendation on reducing the share of tied ODA to developing countries. The absence of serious progress in untying aid represents another example of the discrepancies between the interests of donors and the national development goals and priorities of recipients.

The issue of ownership of aid stems from the established relationship between donors and recipients. Donors exercise what they see as their right to make a decision about where their aid should go and how it should be provided. The donors' formulation of aid goals

60 Kharas, H. 2008. "Measuring the Costs of Aid Volatility. Wolfensohn Center for Development at Brookings, WP 3, July 2008"; Clist, Paul. 2011. "25 Years of Aid Allocation Practice: Comparing Donors and Eras". CREDIT Research Paper, No 09/11.

61 Desai R., Kharas H. 2010. "The Determinants of Aid Volatility. Global Economy and Development". Working Paper 42.

62 Osei R., Morrissey O. and Lensink R. 2002. "The Volatility of Capital Inflows: Measures and Trends for Developing Countries". CREDIT Research Paper 02/20.

does not always correspond with the aid recipient country's priorities. This is explained by the fact that aid to developing countries is often used for the political purposes of donors. In these cases, foreign aid may strengthen unpopular regimes instead of helping to address the urgent development problems of a recipient country.

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The complexity of aid architecture raises transaction costs for both donor and recipient countries, leads to a dispersion of resources, and lowers the effectiveness of aid. However, developed countries continue to dominate international development assistance which generates criticism among developing countries, and NGOs and academic communities around the globe. Such a state of affairs often translates into ignoring the realties in the poorest countries (the absence or lack of modern institutions, the large deficit of professionals, the complex nature of poverty, the low extent of economic diversification, weakly developed physical infrastructure and so on), This situation results in imposing a generic scheme on the eradication of underdevelopment. Until recently, recipient countries have been rarely invited to participate in the formulation and implementation of aid projects and programs which has led to a sharp decrease in the effectiveness of methods of poverty reduction initiated by donors. The analysis of structure and distribution of aid flows clearly demonstrates the urgent need to continue to develop innovative approaches which would both take into account the recipients' needs and propose effective methods of increasing coordination between different state and non-state development actors. To a large extent, the outcomes of such efforts will depend on the extent to which both established donors that have dominated in the aid architecture for the last six decades and emerging providers of assistance –will be open to dialogue. The approaches of these players will be examined in detail in the subsequent lectures.

SELF-CHECK QUESTIONS

1. What are the main problems of measuring global aid flows?
2. Please, describe the main trends in the distribution of aid flows by source of finance.
3. Please, describe the main trends in the distribution of aid flows by modality, form and financing instrument.
4. Please, describe the main trends in the distribution of aid flows by region, country and income group.
5. Please, describe the main trends in the distribution of aid flows by sector.
6. What problems are caused by the diversification of aid providers?
7. What are the causes and consequences of an increase in multi-bilateral aid?
8. What are the causes and consequences of unpredictability and volatility of aid?
9. What are the causes and consequences of aid fragmentation?
10. What are the possible directions for reforming global aid system?

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LECTURE №5

ESTABLISHED DONORS: COMMON TRAITS AND COUNTRY SPECIFICS

Lecture outline

1. **Established donors: a general overview**
2. **United States**
3. **Nordic countries**
4. **United Kingdom**

One of the main features of the current state of affairs in international development assistance is a coexistence between so called "established" and "emerging" donors that adhere to different principles of providing aid but enter into complex interactions with each other. The first group is represented by the DAC members. The largest DAC donors – the United States, the United Kingdom, and France – were pioneers of foreign aid and have been setting the agenda in this field for six decades. In spite of the formal unity ensured by DAC membership, this group has never been homogenous. This lecture identifies the common features of established donors and the particularities of the national aid programs of those countries that, in our opinion, are most interesting as conventional "models" of providing ODA – the United States, the Nordic countries and the United Kingdom.

1. Established donors: a general overview

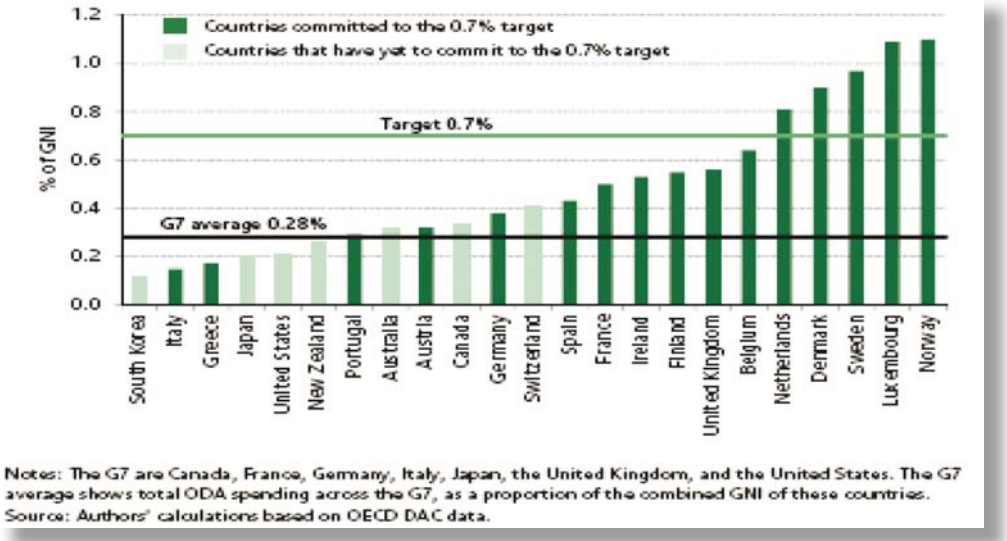
The group of established donors is represented by the members of the OECD-DAC – the privileged club of donors, established in 1961, that has been shaping the international development agenda for more than half of a century. The DAC had 10 founding members – Belgium, West Germany, Great Britain, Italy, Canada, Netherlands, Portugal (withdrew in 1974, rejoined in 1991), the United States, France, Japan, and the European Commission. 6 more countries joined the club in the 1960s – Denmark (1962), Norway (1963), Sweden (1965), Austria (1965), Australia (1966), Switzerland (1968); two more in the 1970s – New Zealand (1973) and Finland (1975); in the 1980s – Ireland (1985); in the 1990s – Spain (1991), Luxembourg (1992), and Greece (1999). The last expansion of the club occurred in 2010 with the joining of South Korea. The number of members has increased to 24 (23 countries + the European Commission).

In the political-economic sense all the original DAC members belong to the West and to the North. This identity played a large role both during the Cold War and after the fall of the Berlin Wall (all members of the club with the exception of Switzerland and Austria were either NATO members or allies of the United States beyond the North Atlantic Alliance such as Japan and South Korea). There is increasing activism by emerging donors beyond the DAC system. Only some of these emerging donors aspire to DAC membership and to strengthen ties with the club of established donors: new EU members, Turkey, Israel, and Russia.

Below is the brief description of the most important trends within the DAC.

First, the last decade has seen a remarkable increase in the gross volumes of ODA provided by established donors. ODA from these donors reached a historical maximum in 2010: US$131 billion. However, the share of traditional donors in the global ODA pool has been decreasing. The share of ODA in ratio to GNI is also on the increase, but remains significantly lower than 0.7 percent (0.32 percent in 2010). It is worth mentioning that not all established donors made a commitment to reach the 0.7 percent level, and not all countries that made the commitment to increase ODA levels have done so.

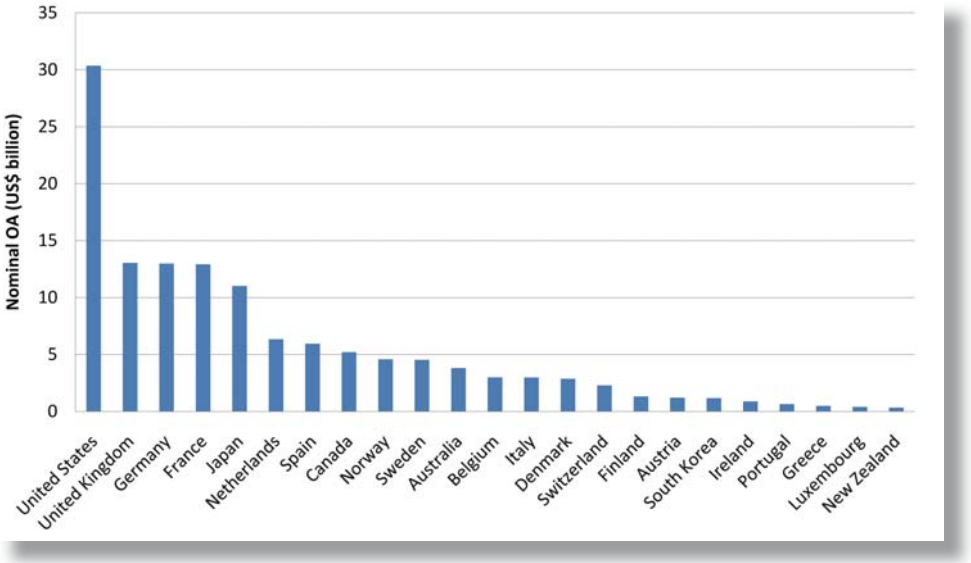
Figure 5.1. ODA as percentage of GNI by individual DAC members in 2010.



Source: Fitzsimons E., Rogger D., and Stoye G. (IFS). UK development aid. // Carl Emmerson, Paul Johnson and Helen Miller (eds). The IFS Green Budget: February 2012 Institute for Fiscal Studies, 2012. URL:http://www.ifs.org.uk/budgets/gb2012/12chap7.pdf p.157

The current breakdown of the DAC aid by donor country looks as follows.

Figure 5.2. Gross ODA by individual DAC members in 2010 (US$ billion)

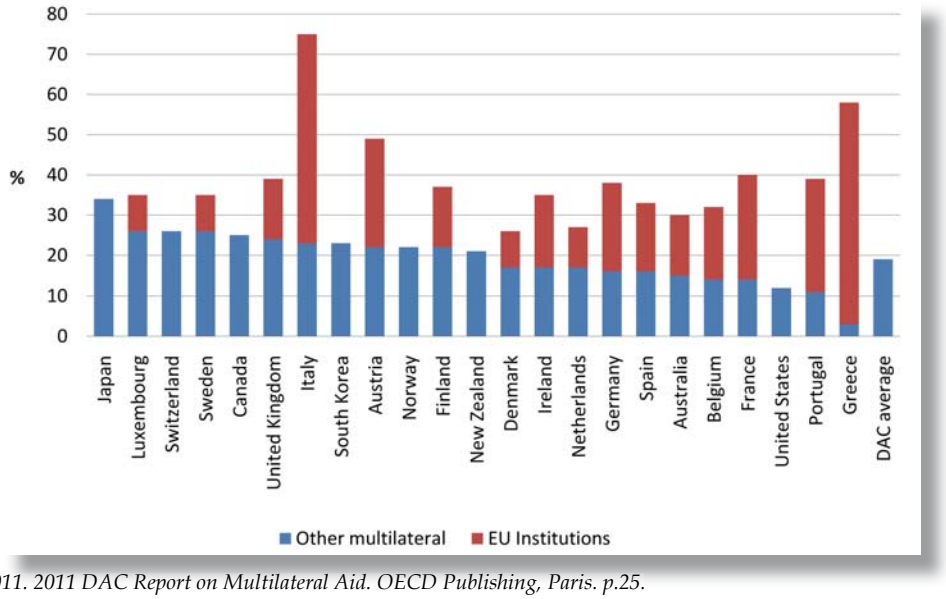


Source: Fitzsimons E., Rogger D. and Stoye G. (IFS). UK development aid. // Emmerson C., Johnson P. and Miller H. (Eds,). The IFS Green Budget: February 2012, Institute for Fiscal Studies, 2012. URL: http://www.ifs.org.uk/budgets/gb2012/12chap7.pdf P.158

The line-up of the top five in amount of development aid has been the same for half a century: the United States, the United Kingdom, Germany, France, and Japan. In the last decade, the United States has regained the leadership in amount of aid that they lost to Japan in the 1990s. Japan, on the contrary, dropped down to 5th place. Its share in the DAC aid pool has been decreasing, while the share of the United States and the EU members has been increasing.

Second, we have seen an increase in the amount of bilateral aid; mostly, due to an increase in so called multi-bilateral aid (from 67 percent to 72 percent over the last 10 years), and a respective decrease in the share of multilateral aid (from 33 to 28 percent and then to 19 percent, excluding contributions to EU institutions), as well as a decrease in humanitarian aid. However, these figures vary considerably amongst donors.

Figure 5.3. Multilateral aid as a percentage of ODA by individual DAC members (2007-2009 average, excluding debt relief)



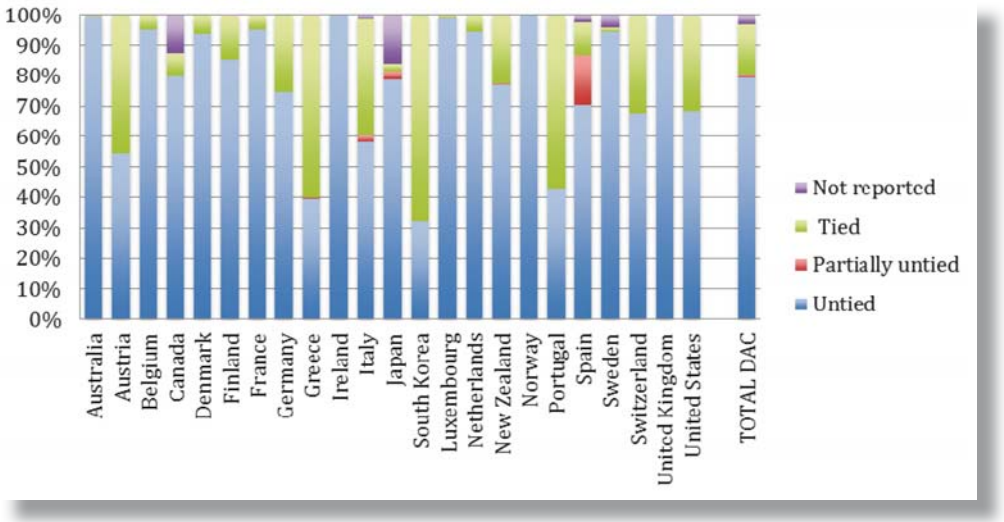
Source: OECD. 2011. 2011 DAC Report on Multilateral Aid. OECD Publishing, Paris. p.25.
URL: http://www.oecd.org/dataoecd/5/61/49014277.pdf

Third, the geographic and sector distribution of aid flows provided by traditional donors also has been changing. The share of aid to Sub-Saharan Africa and the Middle East has been increasing significantly, while the share to Asia, North Africa and Latin America has been decreasing. The main trend in the sector distribution is a decrease in amount of aid directed to production sectors and to infrastructure, and an increase in the amount of aid to social sectors which now account for 40 percent of all sector-allocable aid.

Fourth, the volumes of aid channeled by traditional donors to/through NGOs has also seen a remarkable increase: such volumes grew four times (from US$3.9 billion to US$16.2 billion), The share of aid to NGOs grew from 4 percent to 12.3 percent. Donors channeled five times more funds through national NGOs than through INGOs and local NGOs in partner countries.

Fifth, the share of tied aid has been decreasing. However, this parameter varies amongst donors from 0 percent to 1 percent (Norway, Ireland, Netherlands, Luxembourg, the United Kingdom) to 67.7 percent in South Korea.

Figure 5.4. Tying Status of ODA by Individual DAC Members (2010, percentages)



Source: OECD-DAC. Statistics on Resource Flows to Developing Countries. Table 23 - Tying Status of ODA by Individual DAC Members, 2010, percentages.
URL: http://www.oecd.org/document/9/0,3746,en_2649_34447_1893129_1_1_1_1,00.html

Even these few figures show clearly that there is not a high degree of homogeneity within the group of established donors. Members of the "club" differ from each other in the objective criteria they use to formulate aid policy: economic power, geographical location, structure of the political process, distribution of power between elite groups, and the ideological principles that guide their relationship with developing countries. The historical experiences of interaction between various traditional donors with the global South are very different. That is why the goal of harmonization of aid is still so difficult to meet.

There is no universally accepted typology of established donors similar to the one elaborated for emerging donors. It is possible, however, to describe a given donor by deconstructing the structure of interests that it pursues through providing aid. There is a mix of self-interests – political and economic –and altruistic, philanthropic values. There is a formal consensus to take into account the needs of recipients countries. The extremes of a continuum of interests are the United States and the Nordic countries. All other countries can be placed somewhere in between.

The structure of interests must be analyzed while taking into account historical dynamics. Some countries that pursued political-economic interests during the Cold War started focusing after the Cold War more on the needs of recipient countries. For example, in the United Kingdom a shift that began in 1997 after the Labour Party's ascension to power gained such momentum that the victory of a coalition government could not stop it. The Netherlands and Ireland have been moving in the same direction. There has been a lot of talk recently about so called "Nordic+" group that includes Sweden, Norway, Denmark, Finland, and the followers of their model, such as the United Kingdom, Netherlands and Ireland. These countries demonstrate an increasingly great willingness to coordinate their efforts with each other on the country level and to reconcile their positions with the positions taken at important international forums on aid policies and principles. Other countries,

such as France, Germany, and Belgium continue to adhere to their initial inclination to use development assistance as a foreign policy and a foreign economic policy tool. They implement new approaches aimed at meeting the needs of recipients slowly and reluctantly.

There are still serious obstacles that hinder a trend towards softening of the development policies of some of the largest donors. The most significant obstacle is a trend towards re-securitization and re-politicization of development assistance that clearly manifested itself after the 9/11. The upheavals of the Arab Spring do not support positive changes either. The transformation of the Arab Middle East into one big melting pot of instability concerns all the largest donors. The G8 summit in Deauville, France in 2011 showed clearly that development assistance will remain one of the core instruments for promotion of the national interests of donors.

Another obstacle to a more recipient-centered direction is the largely unfavorable economic situation in the years since the global financial meltdown and economic crises between 2007 and 2009. The crisis and meltdown weakened Western countries on one hand, and on the other, exacerbated competition on world markets. This in turn provided a strong impetus to the commercialization of international development assistance. Further, it led to the reduction of efforts toward the goal of promoting economic growth through boosting exports. If the geopolitical and economic situation does not become more stable in the nearest future, the possibility will become very real that the policies of many donors will harden anew on the self-interest continuum.

The "average" figures reported by DAC allow only the identification of some general trends. This cannot replace detailed research on the strategies of traditional donors. We chose as examples to analyze those donors that are the most interesting for one reason or another. The United States is the largest donor in the world by amount, but not by level of providing aid in relationship to the size of its economy. The strategy of the United States is known for the noticeable prevalence of political and strategic interests in aid policy and allocation. The Nordic countries have long been considered to be a model of an altruistic approach to international development assistance. The model of engagement of the United Kingdom in international development cooperation has undergone the most radical changes over the last 15 years.

2. United States

The United States belongs to a privileged club of pioneers of providing development aid. It has been the largest player in the field for more than 60 years. This level of influence is reflected in its nominal volumes of aid, its geographic and thematic scope of programs, and the extent of its influence on the policies of other bilateral donors and international organizations, primarily the Bretton-Woods institutions. The U.S. aid programs always have been formulated in the context of national security strategy. Aid programs have been used indirectly as instruments for the promotion of American business interests. The degree of securitization and commercialization of American aid varied in response to changes in the geostrategic situation in the world, and the ideological orientations of different administrations.

History, goals, and principles. Initiatives aimed at improving the living standards in other countries have been common in the United States since the 19th century. However, until the Second World War they remained primarily a prerogative of religious groups and private charity organizations. In the post-Second World War environment, due to the exacerbation of the strategic Cold War competition with the Soviet Union and the endorsement of the containment doctrine, aid programs funded from the U.S. federal budget acquired strong political status. The prevalence of foreign policy interests in the formulation of U.S. international development assistance policy can be considered as having been determined historically.

In 1948 the Marshall plan was launched that covered not only the European countries, but their overseas territories as well. Ideological considerations alone did not prevail in this case. A main goal with respect to the overseas territories was to obtain access to strategic natural resources, mainly in Africa. However, the true departure point in the development of the national aid program was in 1949 when President Harry Truman declared the program of technical assistance to the underdeveloped countries, known as "Point Four" of his inaugural address. In the 1950s, following the further advancement of the decolonization process and the increased Soviet penetration of the Third World, the institutionalization of the U.S. national aid system accelerated. In 1953, the United States Foreign Operations Administration (FOA) was established as an independent government agency outside the Department of State in order to consolidate economic and technical assistance on a world-wide basis. Its responsibilities were merged into the International Cooperation Administration (ICA) one year later. In 1961 the Foreign Assistance Act was adopted. The United States Agency for International Development (USAID) – the first aid agency in the world – was established.

The U.S. non-military aid to countries on the periphery of the international system played an ideological role as another tool in the struggle between competing development models (capitalism and socialism). Non-military aid was also a strategic part of the containment of the Communist threat. It was used for strengthening alliances with friendly regimes in the Third World. Non-military aid also paved the way for military cooperation or else complemented it. That is why in the 1950s American aid programs were focused on the countries in China's neighborhood. At the beginning of the 1960s, after the Cuban revolution, the focus shifted to countries in Latin America. In the second half of the 1960s, the focus shifted again to South-East Asia. In the 1970s, after the ascension to power of pro-Marxist regimes in Somalia, Ethiopia, Angola and Mozambique, there was another shift in focus. In the 1980s after the Sandinistas' victory in Nicaragua there was another shift in focus to Central America.

The specifics of American aid programs were determined not only by the objective security needs of the country, but also by the public perceptions of these needs as well. Most ordinary Americans remained isolationist. Most Americans were highly critical of the idea of big government. This made them question the need to direct taxpayer money to the corrupt governments of underdeveloped countries (especially given that the U.S. had not been a colonial power, and did not experience guilt for exploiting the Global South in the past). The level of public support for international development assistance in the United States remains the lowest among all of the largest donors (at about 50 percent).

Economic motives were less pronounced in the aid program of the United States in comparison with Italy or Japan. For example, the United States did not use "mixed credits" schemes aimed at promoting national exports. However, commercial considerations have manifested themselves since the 1960s in the practice of tying aid. Tied aid became an instrument for the promotion of businesses interests and for strengthening the current accounts balance.

In the 1970s and 1980s, the U.S. aid program underwent significant changes. First, against the background of NGOs increasing their influence within a country, developmentalist motives became more pronounced. Second, after the Camp David Accords between Israel and Egypt negotiated with mediation of the Carter Administration, peacemaking began to compete with the containment of the Communist threat as the main focus of aid programs. Since 1979, nearly four-fifths of Economic Security Fund monies (around US$2 to US$2.5 billion a year) have in fact been allocated to Israel and Egypt [Lancaster 2000, p.18].

After the fall of the Berlin Wall in 1989, the focus of American aid programs shifted to specific regional problems such as assisting the peace process in the Middle East, the promotion of the democratic transitions in Eastern Europe, and the counter-narcotics efforts in Latin American countries. At the same time, there has been a greater focus on solving transnational problems, the promotion of democracy, and the complex emergencies from natural disasters and humanitarian tragedies. During this period there was a move in Congress to direct significantly increased amounts of U.S. bilateral aid to financing export promotion, but it was quashed early in the Clinton administration [Lancaster 2000, p.27]. U.S. aid policies have remained a tool for securing U.S. national interests. But aid policies lost their long-standing overall goal. There were drastic cuts in aid (the largest among all traditional donors), and the loss of donor #1 status to Japan. There was a reduction of USAID authority, staffing, and funding. There was a need for a new rationale. This new rationale was provided by the terrorist attacks of 9/11.

In the National Security Strategy of 2002, development was declared for the first time ever to be a crucial component of national security, a third pillar, along with diplomacy and defense (the 3D concept). Aid was conceptualized as an instrument for the "eradication of root causes that terrorists are seeking to exploit." The focus of aid policies shifted towards statebuilding and peacebuilding. This shift became even more pronounced after the invasion of Iraq when the United States got a close-up picture of how a foreign intervention can transform a stable state into a failed one. In January 2004 USAID prepared a report "US Foreign Aid: Meeting the Challenges of the 21st Century" that defined five goals of U.S. foreign aid – 1) promoting transformational development; 2) strengthening fragile states; 3) providing humanitarian relief; 4) supporting U.S. geostrategic interests; and 5) mitigating global and transnational ills[63]. In January 2005, specifically for the beginning of the second presidency of G.W. Bush, USAID published a document devoted entirely to the issue of "fragile states" that the USAID declared to be its number one priority[64].

63 US Agency for International Development. 2004. "US Foreign Aid: Meeting the Challenges of the 21st Century. White Paper." Washington, D.C.: USAID.

64 US Agency for International Development/Department of State. "Strategic Plan. 2004. Fiscal years, 2004-2009 Aligning Diplomacy and Development Assistance". // USAID [Official website]. URL: http://www.usaid.gov/policy/budget/state_usaid_strat_plan.pdf

The idea of the security-development nexus retained significance after the shift of focus of U.S. foreign policy from the Global War on Terror to the promotion of democracy. Within the framework of the "transformational development" concept introduced by Secretary of State Condoleezza Rice in 2006, statebuilding and democracy promotion became synonyms. The Director for Foreign Assistance R. Tobias developed a matrix which analyzed all of the bilateral assistance provided by the State Department and USAID in terms of their contributions to the achievement of five strategic goals: 1) building peace and security; 2) investing in people; 3) governing justly and democratically; 4) assisting economic growth; and 5) providing humanitarian aid.

The paradigmatic shift of the Bush administration and the U.S. government civil ministries of the U.S. government towards securitization of aid was complemented by the developmentalization of the Pentagon's strategy. In 2005 the military was given a mandate to engage in development activities within the framework of stability, security, transition and reconstruction operations that were authorized to "be given priority comparable to combat operations." However, in reality this translated into the so called "militarization of aid" [Bartenev, 2011].

The 3D doctrine was endorsed by the Obama administration in spite of the manifest willingness of the Democrats to distance themselves from their Republican predecessors. The White House still emphasizes the global strategic consequences of underdevelopment in the South. However, the United States has also had to adjust its strategy. First, the degree of militarization of aid has decreased. Second, cooperation with multilateral organizations has been enhanced. Third, the tendency to commercialize aid brought about by the need to pull the American economy out of the recession has become less of a priority.

Development assistance has acquired a higher status. The year 2010 was marked by the first ever Presidential Directive on Global Development. The Quadrennial Diplomacy and Development Review has been established as an undertaking of the Department of State and the USAID. In September 2010 President Obama launched three major initiatives: 1) Feed the Future – strengthening food security ; 2) Global Health – based on PEPFAR[65] program; and 3) Global Climate Change. The same year the U.S. strategy for achieving MDGs was published. It set the following priorities: promoting sustainable economic growth, democracy promotion and good governance, food security, health, climate change, humanitarian aid, and gender equality.

Legislation and organizational model. U.S. aid is managed under the authority granted by the Foreign Assistance Act of 1961 that distinguished between military and non-military aid, codified the establishment of USAID, and forbid aid to governments that violate human rights, with the exception of the cases when aid will benefit the people in need. Moreover, Article 604 stated that funds made available for assistance under this Act might be used by the President for procurement— (A) only in the United States, the recipient country, or developing countries; or (B) in any other country but only if (i) the provision of such assistance requires commodities or services of a type that are not produced in and available for purchase in any country specified in subparagraph (A); or (ii) the President so

65 PEPFAR – President's Emergency Plan for AIDS Response

determines on a case-by-case basis. For half of the century, the FAA of 1961 was amended countless times (17 additional packages of legislation since 1989 have been introduced). Today it outlines 140 aid priorities and contains 400 directives on how to achieve these goals. The U.S. Congress has long been discussing the adoption of new legislation but different stakeholders have yet to prove that they are able to reconcile their interests.

In terms of *organizational mode*l the U.S. system of aid management is known to be one of the most fragmented. Planning and implementation of aid policies supervised by the President are performed by 27 different actors that compete for budget monies. The "Big Three" agencies responsible for implementing bilateral aid programs are the State Department, USAID and the Department of Defense.

The State Department is responsible for formulating strategy of participation in international development assistance. Coordination of policies since 2006 has been carried out by the Director for Foreign Assistance that acts on behalf of the Secretary of State and has the status of Deputy Secretary. Initially he or she acted also as the USAID Administrator but these posts were divided under President Obama. The USAID Administrator is nominated by the President subject to a confirmation vote by the U.S. Senate. The USAID headquarters is located in Washington, D.C. Its country offices are located in approximately 88 different countries across the globe.

There are also two smaller aid agencies (African Development Foundation and Inter-American Foundation), the Peace Corps and line ministries that implement small programs. An important role has been assigned to the Millennium Challenge Corporation which was established in 2004. It administers the US$5 billion Millennium Challenge Account (established in 2002). The MCC provides grants aimed at economic growth promotion and poverty reduction in the countries with the best record of ensuring "good governance", developing health and education systems and promotion of entrepreneurship (overall the recipients' policies are evaluated for 17 different criteria).

Another important entity is the President's Emergency Plan for AIDS Response (PEPFAR) Program established by G.W. Bush under pressure from religious organizations that has enjoyed wide support among the Republicans. Extended under President Obama, it had an initial budget of US$15 billion over the six Bush administration years between 2003 and 2008. For 2012 under President Obama total global domestic and global discretionary spending is US$14.6 billion including the Global Health Initiative.

The Treasury Department assumes the main responsibility for making contributions to international financial institutions. The State Department Bureau of Population, Refugees and Migration provides assistance to UNHCR, the International Committee of the Red Cross, the International Organization for Migration, and UNRWA. The USAID manages contributions to the Global Fund and the UN Program on HIV/AIDS.

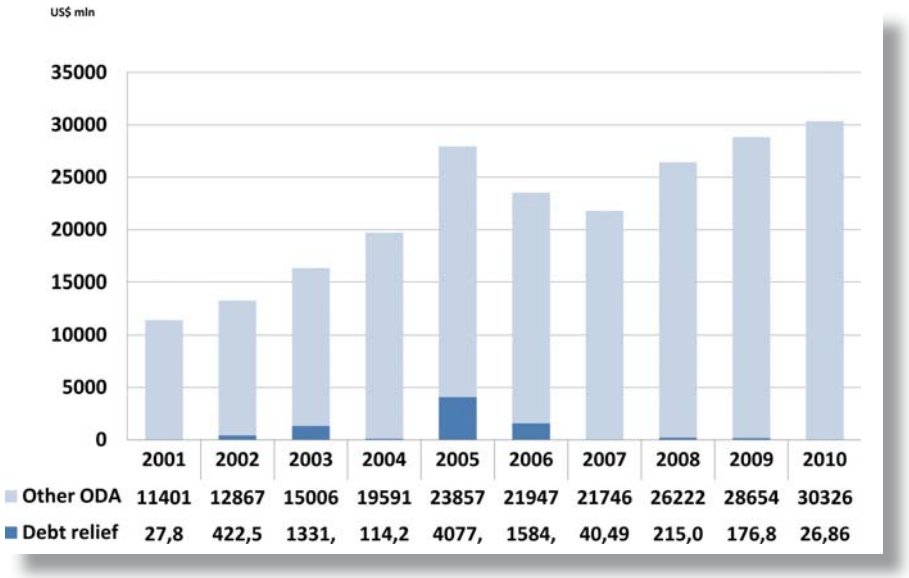
The fragmentation of the American system of aid management has been discussed for years. There are two main directions for reform – placing all programs under the State Department or establishing a separate ministry following the model of the United Kingdom.

The legislative branch exercises a significant role in the U.S. aid system. Congress annually approves the overall aid budget and earmarks funds for specific purposes. This practice of earmarking limits the flexibility of the administration of U.S. development policies and

expenditures. Another characteristic trait of U.S. aid management is close ties between public institutions and the private sector: business circles and NGOs are heavily involved in the implementation of aid programs.

Aid levels. The United States was the largest donor in terms of nominal aid volumes among all DAC members during the Cold War. In the 1960s their share amounted to 60 percent of aid from established donors but since the end of the Cold War this share has gradually decreased. The disappearance of the long-standing rationale for aid – confronting the expansion of Soviet influence – had an immediate impact. In 1989 and in 1993-2000 Japan surpassed the United States (in 1995 Japan provided twice more aid than did the U.S.). However, the beginning of the Global War on Terror put an end to this historical anomaly. As early as 2002, G.W. Bush promised to increase the annual aid budget by US$5 billion for three years (2004-2006) from the 2000 level (that constituted the largest increase in non-military foreign aid since the Marshall plan). As a result, aid volumes increased from US$11.2 billion to US$27.6 billion in the first four years after 9/11 (a record increase among all DAC members). The increase occurred primarily due to the allocation of resources for reconstruction of Afghanistan and Iraq, including exceptional debt relief, and achieving other priority goals in the Global War on Terror. An example from the Bush Administration was the launch of Middle East Partnership Initiative in 2002 aimed at assisting the promotion of democracy in the Arab world.

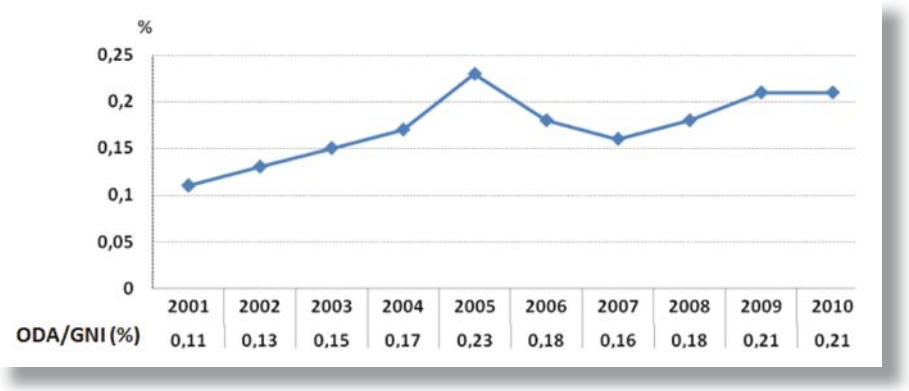
Figure 5.5. Gross ODA provided by the United States in 2001-2010, including debt relief (US$ million).



Source: AidFlows Database. URL: http://www.aidflows.org/index.html?id=US&m=do_1_1_1&mif=false&wbg=false

As a result, the United States broke away from other donors again and became almost unreachable in gross aid volumes. In 2010 the U.S. provided ODA for US$30.1 billion which accounted for 24 percent of all ODA from established donors. This amount is twice larger than that of the United Kingdom and Germany combined. At the same time, the United States remains the country with one of the lowest share of ODA in GNI among all DAC members. Although the U.S. signed the UN resolutions which set the 0.7 percent target they did not set any schedule for achieving it.

Figure 5.6. ODA as a share of the U.S. GNI, 2001-2010.



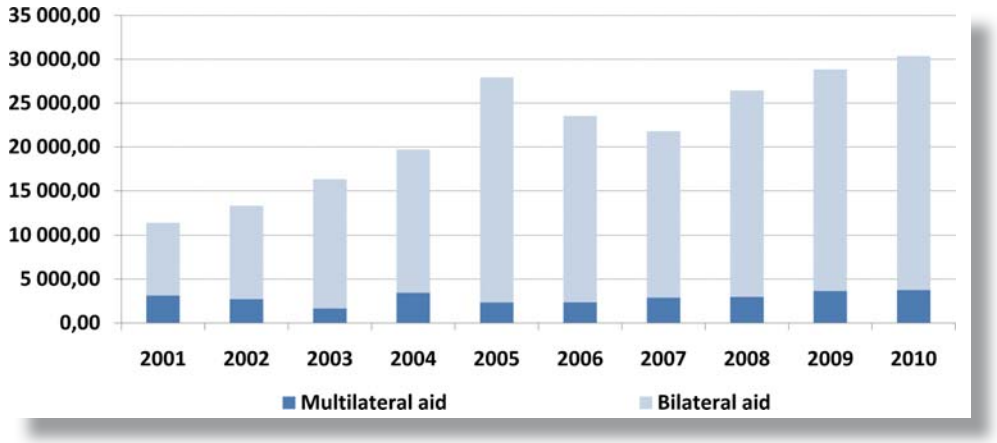
Source: AidFlows Database. URL: http://www.aidflows.org/index.html?id=US&m=do_1_1_1&mif=false&wbg=false

In spite of the favorable support for nominal and relative ODA volumes, the financial crisis and the exacerbation of the U.S. budget deficit problem has slowed down progress. For example, the federal budgets for 2012 and 2013 fiscal years anticipate serious cuts in development programs although the military-related costs in Afghanistan and Iraq are decreasing.

As for distribution of aid flows between different agencies, the main trend of the last decade was the increase of the Pentagon's share from 5.6 percent to 21.7 percent over the 2002-2005 period which amounted to US$6 billion (23.6 percent of all bilateral aid funds). The share of the USAID decreased from 65 percent to 40 percent over the same period. The Pentagon's share of ODA decreased over the second term of G.W. Bush and reached 8.3 percent in 2008, but it was still larger than in any other donor country. Today, the breakdown by agency is the following: USAID – 38 percent, State Department – 34 percent, Department of Agriculture – 7 percent, Millennium Challenge Corporation – 4 percent and Pentagon – 3 percent; a multitude of other agencies account for 14 percent of U.S. aid funds.

Priority aid modalities. The U.S. historically preferred bilateral aid that reflected its willingness to emphasize global leadership. The share of "net" multilateral aid was lower than the DAC average over 1960-2009 (20.9 percent vs. 26.4 percent). It began to decrease after 1993 and in 2007-2009 became the lowest among all established donors. However, the trend changed after President Obama's election. The share of "net" multilateral aid increased up to 13 percent. That increase reflected the orientation of the current administration toward multilateralism, and the willingness to participate in comparative advantages of multilateral organizations; notably, their evaluation models. In 2010 the U.S. provided US$3.76 billion in multilateral aid which accounted for 12.5 percent of the total and 87.5 percent in bilateral aid (with the DAC average being 28 percent and 72 percent respectively).

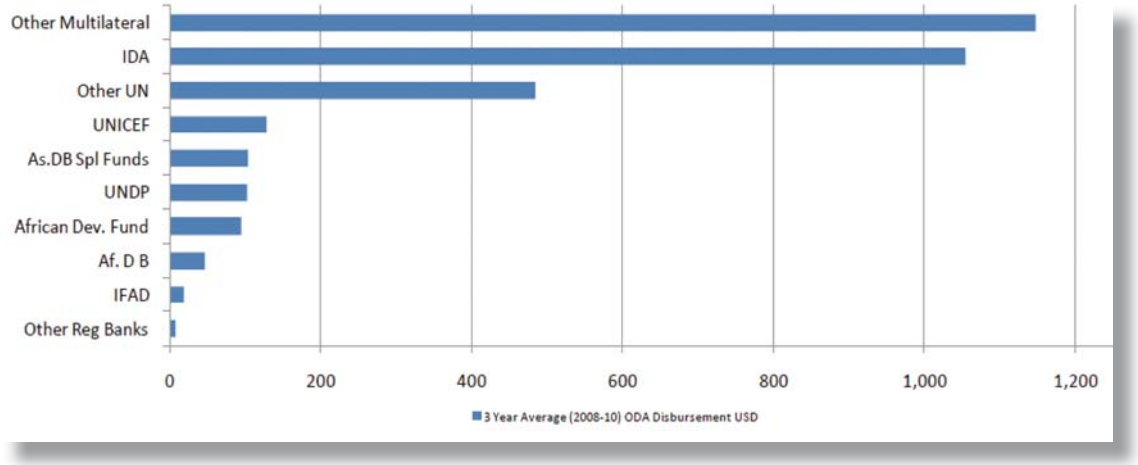
Figure 5.7. The U.S. bilateral and multilateral aid (US$ million)



Source: AidFlows Database. URL: http://www.aidflows.org/index.html?id=US&m=do_1_1_1&mif=false&wbg=false

The United States is now the fourth donor in the DAC in terms of nominal volumes of "net" multilateral aid (their share in the DAC pool is 9 percent) and is the largest donor to the IDA, the Global Fund, UNICEF and the WHO. The breakdown of the U.S. net multilateral aid by organization is shown below.

Figure 5.8. 10 largest recipients of American multilateral aid (US$ million)



Source: AidFlows Database. URL: http://www.aidflows.org/index.html?id=US&m=do_1_1_1&mif=false&wbg=false

The share of the U.S. aid channeled through multilateral organizations is in fact larger and amounts to 27 percent if multi-bilateral aid is included. Non-core financing prevails over "net" multilateral aid. The United States is one of the few traditional donors which prefers such a model of distribution of funds, and is the largest donor in terms of multi-bilateral aid volumes. Such a visible emphasis on earmarked financing can be seen as a result of earmarking of the aid budget funds by the U.S. Congress. This Congressional earmarking stems from the intent to increase the visibility of the American aid efforts and their accountability to taxpayers. Another reason is the politics within the Congress to benefit businesses in local Congressional districts and within individual states.

The largest part of U.S. ODA is provided as tied aid which remains one of the main sources of criticism. In spite of a certain level of progress in untying aid (the share of untied aid decreased from 47 percent in 2005 to 32 percent in 2009), the United States occupies

the 6th place among all DAC members in this respect. The use of financial management and procurement systems of aid partners is complicated by the harsh requirements of U.S. legislation on reporting of aid expenditures. Moreover, for the USAID a countervailing practice to tying aid is a method of limiting the willingness of business to link aid to export promotion.

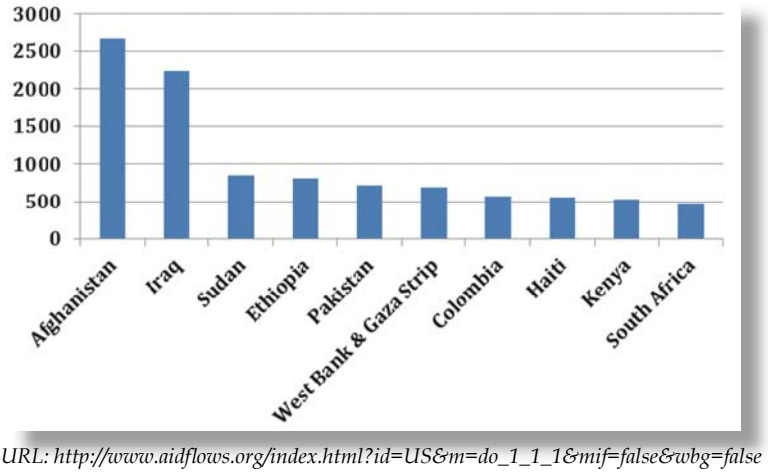
Between 1962 and 1988 credits accounted for 32 percent of all U.S. military and non-military aid. The U.S. has ceased providing credits in recent years. The United States prefers to finance projects aligned with the governments of recipient countries and implemented by NGOs and private contractors, and seldom uses such modalities as direct budget support, pooled funding, and sector-wide approaches. There are several reasons for this. First, these modalities have been seen to have high fiduciary risks, Second, the U.S. Congress seeks to have the opportunity to identify evidence of the results of programs which is impossible in the case of direct budget support or pooled funding. Third, there is growing pressure from large NGOs that are unwilling to lose access to resources which will occur automatically if there is a shift to the program-oriented approach. The only exception to this is if the Millennium Challenge Corporation delegates a responsibility to the recipient country for initiating a grant request and then choosing the program and project implementers.

Geographical and sector priorities. U.S. development aid programs cover the entire globe. In 2010 the U.S. provided economic assistance to 180 countries. The geographic priorities of the U.S. were formed out of the need to accomplish both political goals and strategic goals. Although the U.S. has met its commitment to double aid to Africa that they made at the Gleneagles summit in 2005, the U.S. provides a much smaller share of aid to African countries than do other donor countries. The share of aid provided to more strategically important countries of the Middle East and North Africa, and South and Central Asia is larger compared with the DAC average. The share for Europe increased in the 1990s with the enlargement of the EU $. It declined again with the dropping of several countries from the DAC eligibility list. The budget for the 2012 fiscal year assumes cuts in aid by 15 percent to the countries of Central and Eastern Europe, the Caucasus region and Central Asia. The average percentage figures of distribution of U.S. bilateral aid by region between 2008 and 2010 are the following: Sub-Saharan Africa, 27 percent; Middle East and North Africa, 20 percent; South and Central Asia, 17 percent; Latin American and the Caribbean, 8 percent; Other Asia and Oceania, 4 percent; Europe , 2 percent; 22 percent of U.S. aid is unspecified by region.

In the last ten years, the U.S. has directed the largest share of aid to countries on the frontline of the Global War on Terror: Afghanistan, Iraq and Pakistan. In 2002-2003 aid volumes to the strategic countries in the Middle East (Israel, Egypt, Jordan, Palestinian National Authority, Iraq, Turkey), and to Afghanistan and its neighbors (Pakistan, Uzbekistan, Kyrgyzstan) were almost as big as the aid volumes for the rest of the world. This disproportion became even greater after the beginning of the reconstruction process in Iraq: in 2004-2005 Iraq and Afghanistan accounted for almost 50 percent of all U.S. bilateral aid. In 2006-2008 the share of Iraq and Afghanistan decreased by almost two times. The list of top ten recipients of U.S. bilateral aid is now as follows: Iraq, Afghanistan, Sudan,

Ethiopia, Colombia, the West Bank and Gaza, Pakistan, Kenya, South Africa, and Egypt. Six of these countries, except for Colombia, the Palestine National Authority, Kenya and South Africa, are also among the largest recipients of the U.S. military aid which reflects a high degree of securitization of the U.S. ODA.

Figure 5.9. 10 top recipients of U.S. bilateral ODA (US$ million)



Source: AidFlows Database. URL: http://www.aidflows.org/index.html?id=US&m=do_1_1_1&mif=false&wbg=false

The Obama administration seeks to increase the degree of concentration of U.S. aid programs. The 2012 budget provides for stopping aid programs in 6 countries and reducing aid volumes by half in 22 countries.

The distribution by income group changed radically between 2005 and 2009. The U.S. significantly increased its aid to the LICs (from 22 percent in 2005 to 42 percent in 2009) and to other low-income countries (from 4 percent to 13 percent). With exception of Afghanistan, the largest part of the increase concerned Sub-Saharan Africa. Moreover, the Treasury Department promotes increasing the financing of the poorest countries with the reforms of the multilateral development banks. At the same time, the share of lower middle-income countries has decreased from 70 percent to 38 percent in 2000, while high-middle income countries increased from 3 percent to 7 percent. The year 2005 was marked by the largest bilateral aid package in history – to Iraq. The share of fragile and post-conflict states is one of the highest among all traditional donors. In 2009, 46 percent of U.S. aid was directed to fragile states with Iraq and Afghanistan accounting for 20 percent; 78 percent of all multi-bilateral aid is also directed to the fragile states, primarily to Sudan and Afghanistan.

Sector distribution. The last years have seen an emergence of a trend toward the reduction of the number of priority sectors by the United States. The main focus is now on the social sector which accounts for 53 percent of all sector allocations. The largest part is directed to population and health programs (about 23 percent). With US$63 billion allocated for the Global Health Initiative between 2009 and 2014, the share of this sector will be even larger. Almost the same amount of funds (US$4.9 billion) is spent on strengthening institutions and civil society, although the share of this sector has been decreasing over the last 5 years. Moreover, the U.S. will allocate a significantly larger amount of funds than other donors

on humanitarian aid (the third largest sector) at 14 percent (the DAC average is 8 percent). The share for the economic and production sectors has also been on the increase since 1997 (from 8 percent to 12 percent and from 5 percent to 6 percent respectively).

The breakdown of non-core contributions to multilateral organizations by sector is even more telling; in 2009 almost 69 percent of the U.S. multi-bilateral aid was spent on assisting the health sectors, 14 percent on strengthening institutional potential and civil society; 7 percent on humanitarian organizations. This makes the United States the largest donor in these spheres.

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The United States has a rich history of engagement in international development cooperation. This engagement has contributed to the protection of long-term national interests as well as addressing important regional and global challenges (and failures). When the allocation of colossal resources did not bring about positive results, and involved corruption scandals like in Afghanistan and Iraq, that put a blow to the image of the country. The United States has never been perceived as a modal donor. It has been the object of the harshest criticisms for egoism and the subordination of international development to national security imperatives. The donor policies of the United States have been shaped by the scope of their global commitments. It is not expected that there will be radical changes in the immediate future. The the U.S., will come to the model of the Nordic donors only if it loses status along with abandoning its ambitions to be a global leader. A certain softening of the development policies under the Obama administrations is more a sign of adopting aid polices which are more characteristic of Democratic administrations rather than a strategic transformation similar to the one made by the United Kingdom in 1997. An exacerbation of the debt and budget deficit problems in the U.S. in 2011 has resulted in cuts by the American Congress of many programs not related directly to security. These trends can be easily reversed. Both in case if a Republican candidate is elected in 2016, or there is an exacerbation of the struggle for global influence with China, the donor policies of the U.S. could easily return to its historical origins and become an instrument for containment of strategic rival No.1.

3. Nordic countries

Three Nordic Countries – Sweden, Norway and Denmark – have been important actors in global aid architecture for many decades. Their role stemmed not from their large volumes of aid – the Nordics never approached U.S., Japan or even the largest European donors in this respect – but their original model of engagement in international development cooperation which was chosen in the 1960s. It has been considered exemplary since its founding. Although this model has begun to erode in the most recent past, and the aid programs of the three countries are not identical, they continue to be perceived as a rather homogenous group which has occupied a special place within the club of donors.

Goals and principles. Unlike many other DAC members whose interests are often linked to domestic private interests, or security or geo-political interests, the Nordic countries are often referred to as a group of donors that are less driven by such considerations. Instead, they are more strongly motivated by altruism. Development assistance has been for them the extension of their social democratic values and a means of making a tangible expression of their own social code (especially in Sweden and Norway) Their generosity toward the poorest of countries is reflect in their high aid levels. This commitment to exporting their own domestic values underpinning a moral foreign policy has often been called "humanitarian internationalism" [Selbervik and Nygaard 2006, p.5]. Nonetheless, more egoistic interests have become more pronounced since 2001. This process is especially manifest in Denmark where the influence of private companies over international development assistance is on the rise. A harder line has been adopted which requires results, and subjects aid to foreign policy goals.

Legislation and organizational model. Of all three countries, only Denmark has special aid legislation – a law that was adopted in 1971 and amended in 1998 and again in 2002. As for the organization system, all three countries have a tradition of frequently reorganizing their aid administrations. In all three countries, the Ministry of Foreign Affairs has been involved all along in some capacity. Some have periodically been operating with separate Ministries for Development Aid. Today it is only Sweden that still has a separate directorate in charge of the implementation of governmental aid. In recent years, development issues have been more integrated into their respective Ministries of Foreign Affairs. Currently, all three of these Nordic countries have a separate Minister dealing with development assistance. Another recent trend is the shift from a centralized to a decentralized model of management that reflects more adequately the orientation of these donors toward evaluating the effectiveness of aid allocations.

Sweden was the first Nordic country to establish its national agency in 1962. In 1965, the Swedish International Development Authority (SIDA) was launched. SIDA initially was dominate in this field but started delegating parts of its functions to new structures such as the Swedish Agency for Research Co-operation (SAREC), Swedfund and the Swedish Agency for International Technical and Economic Co-operation (BITS). In 1995, SIDA was more or less back to its original structure, but has now been named the "new SIDA". Today SIDA is in charge of bilateral aid and some multilateral aid implementation. It reports to the Swedish government via the SMFA - The Swedish Ministry of Foreign Affairs (SMFA) that is in charge of overall development policy and most multilateral co-operation. For many years the Swedish Embassies reported both to the SIDA headquarters and to the SMFA [Selbervik and Nygaard 2006, p.7].

Norway. The process of institutionalization of a national aid system in Norway started with the establishment of Norwegian Agency for Development Cooperation (NORAD) in 1968. Until 2004 NORAD was the main implementing aid agency, while the Norwegian Ministry of Foreign Affairs (NMFA) functioned as the policy maker and was in charge of implementation with respect to multilateral and humanitarian aid. However, in 2003-2004 the management system changed radically. Today NORAD is now a technical advisory directorate and quality controller under the NMFA. The NMFA is in charge of both policy

and implementation. NORAD's role has been substantially reduced. But it is still in charge of aid channeled to Norwegian NGOs and of various support schemes to the private sector. The NMFA has two ministers still, one for Foreign Affairs and one for International Development [Selbervik and Nygaard 2006, p.8].

Denmark. Danish aid administration is largely centralized and compact. One out of three departments within the Ministry of Foreign Affairs deals with all development co-operation matters. This unit is called the South group, but is more commonly known as Danida. It is chaired by a civil servant who reports to the Minister. The Danida board consists of nine representatives. Currently, three of the members are recruited from NGOs, three come from the private sector, while the remaining three are recruited from the research community. The chair of the board is always recruited from the research community. The board has an advisory function with respect to the implementation of aid policy vis-à-vis the Minister of Development Co-operation, but not on the policy itself. The board makes comments on issues such as country strategies and sector programs. The board also has a granting authority for programs and projects [Selbervik and Nygaard 2006, p.9].

The role of the legislative branch in the system of aid management in the recipient countries remains limited despite sometimes harsh debates by parliamentarians. The programs enjoy wide support from the parliamentarians, who think that it is necessary to retain high aid levels for image reasons. Important stakeholders are in the private sector (especially in Denmark) and in NGOs through which the large part of development aid is channeled. These stakeholders support official government policies and rarely call for their adjustment.

Aid levels. In the early stage, in the 1950s and 1960s, the aid levels in the Scandinavian countries were quite low. Aid levels began to increase only in the 1970s. Since then the three Nordic countries have always led in terms of aid levels as a percentage of GNI that have been far above the UN target of 0.7 percent and the DAC average. They were mainly competing with each other for the right to be called the most generous donor. During the Cold War this parameter was fluctuating near 1 percent (the Norwegian parliament set this target unreachable for other donors as early as 1973). In the 1990s the levels of aid began to increase. Only Denmark retained the aid levels above 1 percent over this period. In the 2000s the three Nordic countries followed different trajectories. The aid levels in Norway and Sweden started to increase, and to decrease in Denmark. As a result, in 2010s the places among the three were distributed as follows: Norway (US$4,564 million, 1.1 percent of GNI), Sweden (US$4,526 million, 1 percent of GNI), Denmark (US$2,821 million – 0.9 percent of GNI).

The 0.7 percent target remains the minimum level for all three countries. Moreover, the three Nordic countries always disburse committed funds entirely, unlike other traditional donors. Public support for ODA programs remains high even at times of economic crisis.

Priority aid modalities. The Nordic countries have traditionally been strong supporters of multilateral aid, and have disbursed a larger share of their aid multilaterally than do most other donors. Several arguments have been important. As part of their general foreign policy, and from positions as small states, the Nordic countries have favored

strong multilateral organizations and solutions. The multilateral channels have also been perceived as being flexible, and possessing comparative advantages in areas that the Nordic countries have given special priority. Moreover, the multilateral channel has been a way of easing the burden on the bilateral aid bureaucracies. This has been particularly important in periods of steady increase in the volumes of aid. The relevance of these arguments has varied over time, and does differ among the Nordic countries. The latter argument was particularly important in the 1970s and 1980s [Selbervik and Nygaard 2006, p.20]. Denmark and Norway have more or less officially had a policy of a 50-50 split between bilateral and multilateral aid. However, the situation changed. The share of net multilateral aid in the pool of Sweden, Norway and Denmark amounted to 35.7 percent, 22 percent and 26 percent respectively. Norway and Sweden deliver increasingly larger amounts of their aid in the form of multi-bilateral aid: in 2009 it was 52 percent and 35 percent respectively, while in Denmark – only 10 percent.

All Nordic countries channel the largest part of the multilateral aid and multi-bilateral aid to the UN agencies: Norway – 58 percent, Sweden – 44 percent, Denmark – 37 percent (in 2009). Such a distributional pattern reflects the orientation of the Scandinavian donors towards humanitarian internationalism.

Almost all Scandinavian aid is provided in the form of grants: Sweden – 98.4 percent, Norway – 97.4 percent, Denmark – 98.4 percent (the DAC average – 86.3 percent). In Denmark where the interests of private companies have a more pronounced role, a much larger share of funds is delivered as technical assistance. All major stakeholders are against untying aid.

Geographical and sector priorities. From the onset Nordic bilateral aid has largely been channelled to Africa. This has been the case even though Africa was hardly known to the Nordics before the aid epoch. Many Nordic diplomatic missions in African countries were only established after the aid agencies were already located there [Selbervik and Nygaard 2006, p.22]. Today the Nordic countries still direct a much higher share of their aid to Africa than have other bilateral donors. This is explained by the fact that a basic principle for Nordic development assistance has been to provide support to the "poorest people in the poorest countries". In the 1990s aid to Africa began to decrease. First, the cuts were related to the general aid cuts resulting from economic problems in the Nordic countries. In addition, after the lost decade of the 1980s, the Nordic aid bureaucrats and politicians were disillusioned with African leadership.

Among other issues, several cases of corruption on a grand scale contributed to this. Furthermore, in the 1990s aid became a more integrated part of the Nordic countries' foreign policy. Traditional foreign policy issues such as security were linked to development assistance. Many of these operations were not located in Africa. As a result Nordic aid became more widely spread geographically [Selbervik and Nygaard 2006, p.22]. Nonetheless, more recent events, such as the G8 meeting in Gleneagles, have put Africa high on the agenda of the major donors. Nordic political leaders have renewed their strong commitment to Africa, where development co-operation constitutes the most important part so far. The same Danish government that a few years ago decided to phase out three main partner countries in Africa launched a new Africa strategy in 2005. This strategy declares that as much as two-thirds of Danish aid will go to Africa.

Another stark difference of the Nordic countries is a lower share of aid to Asia that constituted on average one-third of the DAC average. In Sweden and Norway the figures are significantly less; in Denmark is lower by 3-4 percent. The policies of the Nordic Countries in Asia are ambivalent: in the Nordic countries there is a two-fold strategy in Asia. In their long-term relationships with the poorest countries, mainly located in South Asia, their main goal is related to poverty reduction. This includes countries such as Bangladesh, Nepal, Bhutan, and Cambodia. In South-East Asia they are concentrated on a few chosen sectors based on strategic considerations. All the Nordic countries emphasize the environment, security, human rights and good governance, as well as private sector involvement [Selbervik and Nygaard 2006, p.23-24].

The distribution of aid flows among countries also looks similar. The lists of the ten largest recipients are 50 percent identical. They all include Tanzania (the largest recipient of bilateral assistance from all three Nordic donors), Uganda, Mozambique, Afghanistan and Sudan. The degree of commonality between the Swedish and Norwegian lists is even greater: both countries aid the Palestine National Authority. Denmark stands out because there are four countries on its list that are not present in other Scandinavian donors' lists – Nigeria, Benin, Vietnam, and Ghana.

Scandinavian donors concentrate their efforts on countries of Eastern and Southern Africa that have been their most important long-term partners. Another characteristic of Nordic aid is an emphasis on long-term partner countries. For many years they had ten to twenty long-term partners, which received the main bulk of their bilateral aid. There has been a remarkable stability and continuity in the long term partners of the Nordic countries. Despite some temporary ruptures, countries such as Tanzania, Zambia, Uganda, Kenya, and Mozambique have been important receivers of Nordic aid for decades. In 1990s when the activities of the Nordic donors became more global in scope – the list of recipients began to include such conflicted-affected countries as Afghanistan, Kosovo, East Timor, Iraq, and Bosnia-Herzegovina. The last years have seen the emergence of a trend towards reducing the number of priority partners.

Scandinavian aid was always more oriented towards poverty reduction than in other DAC members: about 50 percent of aid is channeled to the LICs (the DAC average is 25 percent). However, due to the global trend toward securitization of aid the focus has shifted to fragile states. Some of these fragile states (Iraq, Palestine) do not belong to the LIC group. The Nordic countries were pioneers in terms of setting human rights protection as a priority in development assistance. Therefore they assign a priority to the countries with the best record in human rights [Selbervik and Nygaard 2006, p.26].

The Nordic countries follow the general trend and invest most of their monies into the social sectors. In recent years they (with exception of Denmark) constantly increased their aid to the health, education, governance and civil society sectors. Recently, the Scandinavian countries began to pay increasingly more attention to the development of the private sector. However, in practice, Denmark is the only country within the group that emphasizes the development of economic infrastructure.

Another important feature of the Nordic countries is their willingness to cooperate with other donors, especially in priority countries. The Nordic countries prefer like-minded donors – the so called "Nordic plus" group that began to institutionalize in 2003.

The Scandinavian countries that had a long history of partnership with Zambia invited interested donors to take part in a "Harmonization in Practice" initiative in that country. This marked the beginning of a promising new format of cooperation which grew into interaction on a country level. This new format of "harmonization in practice" has the chance to increase aid effectiveness and help implement principles on a broader scale that the Scandinavian donors were first to implement in practice.

4. United Kingdom

The United Kingdom that possessed the largest colonial empire in history was predestined to become one of the pioneers of international development assistance and to occupy the place of the largest and the most influential European donor. Although the UK always competed with France and Germany for the title of the largest donor from the "Old World" in nominal volumes, it was second only to the United States in geographical scope of their programs and the number of countries where they have been the largest donor. At the same time, the UK was among the least generous donors in terms of aid levels as a percentage of GNI. The political-strategic interests (assisting containment of the communist threat) and the economic – the promotion of national exports – prevailed over humanitarian concerns. However, the Party's ascension to power in 1997 led to a genuine revolution in aid policies. The revolution resulted in a reorientation towards poverty reduction and reaching the 0.7 percent target. The United Kingdom reorganized its whole institutional-legal system of foreign assistance. The policies of the UK as donor have softened in the last 15 years. Moreover, in some components the United Kingdom began to aspire to the role of being an exemplary donor.

History, goals, and principles. British aid programs have a long history rooted in its colonial past that has long been reflected in the confrontation between the approaches to foreign aid of the Labour and the Conservative Parties.

The first stage (1929-1961) started with the adoption of the Colonies Development Act. This act was intended mainly to promoting industry and trade by reducing unemployment in the United Kingdom. It established a Colonial Development Fund which was not to exceed £1 million (about US$70 million in 2004 prices) in any one year to support agriculture and industry in the colonies and in so doing promote "commerce with or industry in the United Kingdom." The United Kingdom decided to scale-up its efforts after the war. The act on development and wealth of colonies presumed an increase of financing by £120 million for 10 years. The act of 1947 established a corporation of overseas development and overseas food corporation.

The beginning of the *second phase (1961-1997)* was marked by the establishment of the DAC and the publication of a White Paper by the Ministry of Finance which stated that poverty eradication in developing countries can be achieved most effectively through economic development. In 1961 Conservatives established a Ministry of Agricultural Assistance to concentrate all functions and expertise on aid delivery which had been previously dispersed between several ministries. In 1964 the new Labour government united all functions for providing assistance, including the competencies that had previously

been incorporated in the FCO in the new Ministry of Overseas Development. The Labour policies were based on the principles of moral debt and the long-term interests of the UK in increasing aid effectiveness. In 1970-74 the Conservatives gave the management of foreign aid back to the FCO. In 1974-79 the Labour Party that came back to power gave the management back to an autonomous agency and tried to orient the aid policies toward providing assistance to the poorest countries who had been hit the hardest by the oil prices boom, and the food crises and worsening of trade conditions of 1970s. After the 1979 elections the conservative government led by Margaret Thatcher gave management back to the FCO. Aid priorities changed significantly – now the focus was on the promotion of foreign policy and the economic interests of the UK (export promotion, in particular). Thus the preference was given to bilateral aid.

Third phase (1997 and on-going) in the development of aid system in the UK started from the Labour Party's comeback to power. Although the FCO was seeking to retain control over the aid budget and policies, a new Department for International Development (DFID) was created headed by the Secretary of State for International Development. The Labour Party managed to implement broader policy reforms. Under the leadership of the first head of DFID Carel Short, DFID decided to put an end to seeking commercial benefit from aid and cancelled the scheme of providing tied aid in the form of mixed credits that had been introduced by the government of Margaret Thatcher. A main development policy goal became poverty reduction The government adopted measureable indicators for evaluating progress in achieving 'Goals of International Development' later labeled the MDGs.

Currently the UK priorities in partner countries are poverty reduction and other MDGs, assisting institutional establishment, fighting against corruption, conflict and violence prevention, support of business and trade promotion, promotion of economic growth and sustainable development, and financing measures for environmental protection, adaptation and mitigation, and alleviation of debt burdens.

Legislation and organizational model. The current legislation on development is recognized as one of the most effective in the world. It is based on two acts: 'The International Development Act of 2002', and the 'International Development (Reporting and Transparency) Act of 2006'.

The *International Development Act* of 2002 defines the goals of financing international development assistance, provides key concepts and terms, defines the responsibilities of the Ministry for Development and other institutions, and outlines procedures of their interaction with international financial institutions.

The 2002 Act established poverty reduction as the over-arching purpose of British development assistance, either by furthering sustainable development or promoting the welfare of people, and prohibits its use for other purposes, including to tie aid by the commitment to hire British companies as contractors. The Act does not contain a definition of poverty that allows for a broader interpretation of this term to include the root causes of poverty, such as conflict, underdevelopment and corruption.

International Development (Reporting and Transparency) Act of 2006 – sets out the standards for reporting progress toward the Millennium Development Goals. The annual report includes data on nominal volumes of aid financing with breakdown by region,

country, sector and international organizations. The data must reflect: progress toward achieving the 0.7 percent GNI target, assessments of aid effectiveness and policy coherence and transparency of aid management. The annual report is provided to the Parliament for further monitoring of expenditures by a national auditing organization.

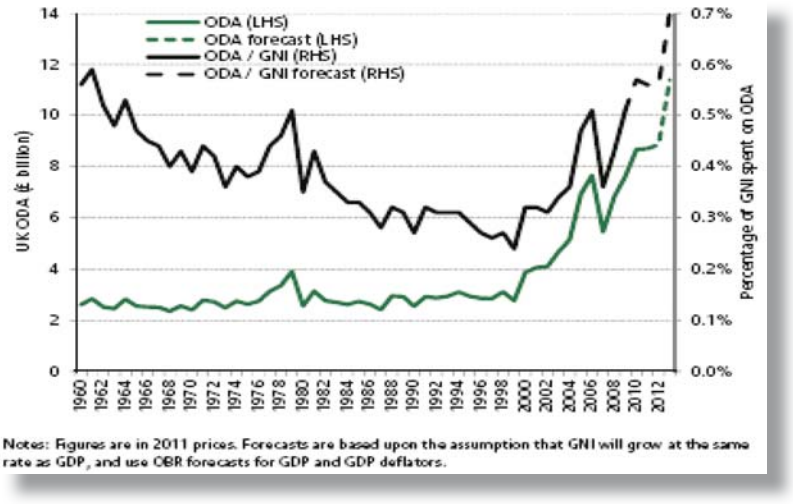
DFID is the leading development actor in the United Kingdom. It has equal status with FCO and the Ministry of Trade and Industry. It is capable of delivering to the Prime-minister and the Parliament the developmentalist point of view on the foreign policy and foreign economic policy of the country. Having a status equal to the FCO and the Department of Trade and Industry (DTI), DFID has become a ministry able to speak on UK foreign and economic policy from a development perspective.

In the UK, the Parliament has the International Development Committee to examine the expenditure, administration, and policy of DFID and its associated public bodies. The Committee also takes an interest in the policies and procedures of multilateral agencies and NGOs to which DFID contributes. The Committee was created in 1997. It is appointed by the House of Commons.

The development studies sector in the UK is among the world's most vibrant. There is also a substantial development research capacity in many NGOs. DFID has established close networks with researchers in university departments, think tanks, consultancies, and NGO policy research units. Such close relationships contribute to an overall coherence in thinking between policy analysts and researchers and helps to ensure that all are speaking a common language on the terms of the debate (Warrener 2004).

Aid levels. The United Kingdom has ranked among the top five donors in terms of nominal aid levels for decades. That accomplishment reflects its global ambitions as a country that had ruled the largest colonial empire in history up to the middle of the 20th century. However, the volumes of ODA stagnated (with exception of the second half of 1970s and the beginning of the 1980s) until the 2000s and started to increase significantly after that.

Figure 5.10. UK ODA, 1960 to 2013 (£ billion), percentage of GNI spent on ODA (percent), with forecast for 2011-2013



Source: Fitzsimons E., Rogger D. and Stoye G. (IFS). UK development aid. // Emmerson C., Johnson P. and Miller H. (Eds). The IFS Green Budget: February 2012 Institute for Fiscal Studies, 2012. URL: http://www.ifs.org.uk/budgets/gb2012/12chap7.pdf p.146

Since the Labour Party's ascension to power in 1997, and after the active involvement of the UK in the global war on terror as the closest ally of the United States, the situation started changing. In the 2000s the levels of UK aid increased permanently with the exception of a short period of 2007 which occurred after the exceptionally high levels of debt relief in 2005-2006. Aid levels increased 3.5 times from US$4 billion to US$13.8 billion in 2010. In 2006 the UK surpassed Japan (for the first time in many years) and became the second largest donor in the world after the U.S. In 2010 it again ranked second while providing the maximum amount of aid in its history.

The notably rapid increase in recent years in nominal ODA levels is explained by the political decision of a coalition government to reach the target of 0.7 percent of GNI by 2013. The United Kingdom became the only G20 country which developed a detailed plan on how to reach the 0.7 percent target and decided to codify the target in national legislation. In order to achieve this, the government has "ring-fenced" aid spending from the cuts that are occurring elsewhere. In contrast to a real-term reduction in total public expenditure in the UK of 11.5 percent between 2010–11 and 2014–15, development aid expenditures will increase by 40 percent [Fitzimons, Rogger, and Stoys 2012, p.142].

It all demonstrates a genuinely revolutionary breakthrough in the UK development policies. Only recently the UK did not belong to the most generous donors. In 1970-2000s, aid levels as a percentage of GNI of the UK constantly corresponded with the DAC average. In 1960-2000s the share of ODA in GNI constantly decreased (with the exception of 1976-1980). However, the situation drastically changed in the 2000s.The DAC average increased from 0.22 percent in 2000 to 0.32 percent in 2010. The UK aid levels as a percent of GNI almost doubled – from 0.32 percent to 0.57 percent - in the same time frame. This is a historical record for the country since the establishment of the UN target in the 1970s. The political and image character of the trend toward increasing both relative and nominal aid levels is underlined by the fact that both figures have grown especially faster in the most recent years, despite the unfavorable economic conditions.

The main trend in the distribution of aid funds between different agencies is in line with the general trajectory towards softening aid policies and is consistent with the increase of DFID's share of the UK budget. In 2006 DFID provided 66 percent bilateral aid and other agencies provided 34 percent. In 2010 the proportion was 85:15. In 2010-11 DFID accounted for 2 percent of all public expenditures in the UK, the same as Ministry of Justice. In comparison, 27 percent is spent on the NHS, an amount approximately 14 times larger than DFID, and 16 percent on education. The DFID budget is expected to increase to 3 percent of overall public spending in 2014–15. By 2014-2015 this share will reach 3 percent of public expenditures which will result in a further increase of DFID's share in the pool of aid funds in comparison with other agencies [Fitzimons, Rogger, and Stoys 2012, p.146].

Priority aid modalities. The UK has given a clear priority to bilateral aid in past years with the proportion between bilateral and multilateral aid being very close to the DAC average. The situation has changed recently. If in 2001 the proportion of bilateral to net multilateral aid was 64:36, in 2010 it was 61.4: 38.6. If we take DFID separately, these figures will differ even more significantly (55:42 in 2010 with 3 percent in administrative costs, whereas the DAC average is 70:30) [Fitzimons, Rogger, and Stoys 2012, p.148].

On the global basis, the volumes of "net" multilateral aid have grown very fast. For example, in 2010 "net" multilateral aid increased by 32 percent in nominal terms in comparison with 2009. The World Bank Group accounted for the bulk of this increase. The structure of multilateral aid is also changing. In 2006-2007 the European Commission accounted for 51 percent of all funds, the World Bank for 22 percent, the UN agencies for 11 percent and other organizations for 16 percent. Today's breakdown is totally different: 39.4 percent - European Commission, the World Bank Group – 28.8 percent, the UN agencies – 11 percent, the Global Fund – 9.2 percent, regional development banks – 6.3 percent, other organizations – 5.3 percent [Fitzimons, Rogger, and Stoys 2012, p.156].

However, these figures do not reflect the real distribution of aid between channels of delivery. *First*, it does not take into account the volumes of so called multi-bilateral aid that has increased more than 3 times between 2006 and 2010 due to the UK's large contributions. This rise was also due to a number of new bilateral contributions to multi-donor pooled funds that are managed by a multilateral organization – for example, the Global Trade Liquidity Programme (GTLP), the Environmental Transformation Fund and the IDA Social Protection & Crisis Response Fund [Fitzimons, Rogger, and Stoys 2012, p.150].

Today, 44 percent of DFID's bilateral assistance is channeled through the contributions of multilateral organizations to global programs and funds – 34 percent, humanitarian aid – 8 percent, debt relief operations – 2 percent. Thus, 66 percent of DFID's aid program is channeled through multilaterals. Such manifest emphasis on the use of the channels of multilateral organizations and a willingness to cooperate with other donors is explained by the political-ideological orientation of DFID that draws on the idea that only global cooperation can make a significant contribution to achieving MDGs.

Second, only 28 percent of DFID funds are delivered directly to national governments: 15 percent is delivered through "poverty reduction budget support". In this channel funds are provided directly to recipient governments and pooled with their own funds to be spent on home-grown development programs, and 13 percent ("other financial aid") is devoted to direct aid for funding sector-specific projects and programs. Third, a further 15 percent of aid is distributed through both UK and foreign non-government organizations. DFID collaborates with more than 200 organizations – both international and British with the British Red Cross, Oxfam, and VSO UK being the largest partners. DFID also engages NGOS in delivering humanitarian assistance in emergencies. Fourth, 11 percent of bilateral assistance is delivered in the form of technical assistance, mostly through British experts [Fitzimons, Rogger, and Stoys 2012, p.150-151].

Finally, the UK is a prominent actor and an agenda-setter in humanitarian assistance. The two-thirds of humanitarian aid is untied or partially tied and is allocated based on multi-year plans for the long term which increases its predictability.

Geographical and sector priorities. The geographic distribution of the UK aid is changing. The share of Asia and Europe has been decreasing, while the share of Sub-Saharan Africa is growing. With the exception of France, which allocates almost 60 percent of its ODA to Africa, the UK spends a higher proportion of its aid in Africa than does any other G7 country. If we examine the average figures for 2008-2010, the breakdown of the UK aid by region is as follows; Sub-Saharan Africa – 34 percent, South and Central Asia –

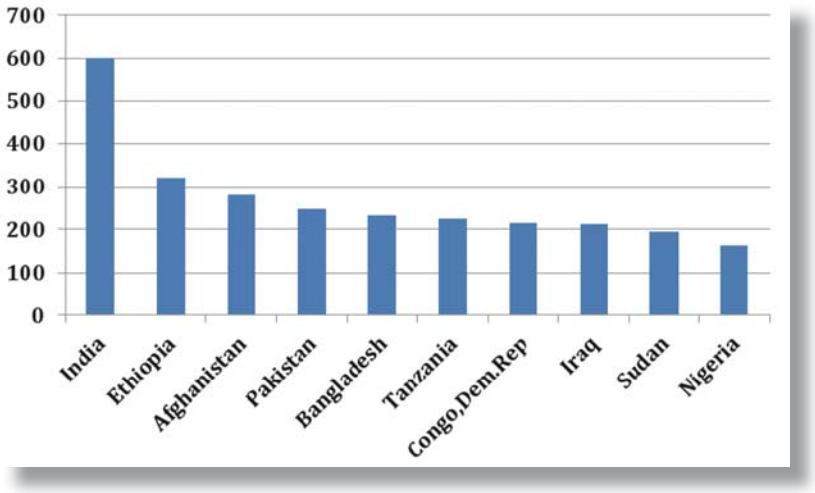
21 percent, Middle East and North Africa – 4 percent, Other Asia and Oceania – 5 percent, Latin America and the Caribbean – 2 percent, Europe – 1 percent, 32 percent of aid was not region-specified. These distributions seem to be largely linked to historical ties. Both France and the UK had a large colonial presence in Africa. This appears to be connected to the areas in which they currently allocate aid.

In fact, over half of DFID's bilateral aid expenditures that were allocated to specific countries in 2010–11 were expended in Commonwealth countries which included the United Kingdom, the UK dominions and some other countries (India, Pakistan, Ghana, Nigeria, Cyprus, Tanzania, Uganda, Kenya, Malawi, Singapore, Botswana, Malaysia, Lesotho, Swaziland etc.) [Fitzimons, Rogger, and Stoys 2012, p.159].

The UK programs are implemented by DFID in 150 countries through two central offices in the UK and 64 foreign bureaus. Working with partner countries is based on the country's 3 to 5 year plans. There are now 78 country plans that are developed for those countries that receive more than £20 million pounds a year. 36 of these countries receive direct budget support, and account for 85 percent of country-programmable bilateral aid.

Distribution by country demonstrates the strength of historical ties with the former colonies and the concentration on the poorest countries of the South Asia and Africa, notably, conflict-affected ones. The top ten recipients of the UK bilateral aid are India, Afghanistan, Ethiopia, Bangladesh, Iraq, Sudan, Tanzania, Pakistan, Democratic Republic of Congo and Nigeria.

Figure 5.11. 10 top recipients of the UK ODA, 2008-2010 average (US$ million)



Source: AidFlows Database.

Aid to top twenty recipients accounts for 83 percent of bilateral country-programmable aid. 53 percent is channeled to LICs; 19.2 percent - to other low-income countries, 22.9 percent - to lower middle-income countries; 4.9 percent to high-middle income countries. Although the share of low income countries decreased in comparison with peak figures of 2006, bilateral aid continues to reflect the focus on achieving the MDGs and the fragile states that are lagging behind the most in their achievement.

In March 2011, DFID published the results of the Bilateral and Multilateral Aid Reviews (BAR and MAR respectively). These are set to shape the focus of DFID spending over the coming years.

The BAR sought to identify the most cost-efficient ways for the UK to tackle extreme poverty, with the aim of prioritizing DFID's bilateral expenditure in fewer places but where it could have the greatest impact. It also sought to reinforce DFID's commitment, set out in the 2010 Strategic Defense and Security Review, to spend 30 percent of its budget in fragile and conflict-affected countries by 2014-15.

Over the next four years, the number of countries that DFID will focus on will fall by a third, from 43 to 27. Prior to the report, it was decided that funding would cease for China and Russia, Angola, Bosnia and Herzegovina, Burundi, Cambodia, Cameroon, Gambia, Indonesia, Iraq, Kosovo, Lesotho, Moldova, Niger, Serbia and Vietnam. In 2010-11, these programs accounted for 3.6 percent of DFID's total bilateral program. The selection of these 27 priority countries (as well as three regional programs) was justified by comparing them with a "need-effectiveness index"[66] that judges both the potential effectiveness of aid spending within a country and the need of that country's population. Ethiopia and Nigeria are set to receive the largest amounts in Africa by 2014–15.

Tanzania, which in 2010–11 was allocated a larger amount of aid than Nigeria, will be allocated a smaller share of African aid in the future. Pakistan will become the largest recipient of UK bilateral aid, with Nigeria moving up to third and India falling to fifth. Pakistan and Nigeria, both notably "fragile", as well as Bangladesh, can be seen as the big "winners' from the BAR. The aid recipient budgets from the UK for each of the countries will roughly double over the period and by 2014–15 and will account for 11.9 percent, 8.1 percent and 8.0 percent of the priority UK aid budget respectively. By the same measure, the relative "losers" are India and Afghanistan. In 2010–11, India accounted for 10.7 percent of planned bilateral spending on these priority countries. This will fall to 7.5 percent by 2014–15. The freeze on allocated expenditures in Afghanistan will reduce its share by 2.2 percentage points to 4.8 percent in 2014–15 [Fitzimons, Rogger, and Stoys 2012, p.152-154].

Sector distribution of bilateral assistance also reflects the UK government's focus on the MDGs.

Over the period 2005–06 to 2010–11, the allocation of funds remained roughly constant. The greatest shares in 2005–06 were allocated to the areas of: health (18 percent), with a focus on communicable disease control and maternal health; economics (18 percent), aimed at creating the correct conditions for economic growth and investment; and government and civil society (25 percent), which aimed to help avert conflict and encourage stable institutions in fragile countries. These sectors remained the largest in 2010–11. Sector distribution varies substantially between regions [Fitzimons, Rogger, and Stoys 2012, p.155].

There is evidence that the quality of UK aid is high by international standards. For example, in a 2010 peer-reviewed report by the DAC, the UK was recognized as an international leader in development [OECD-DAC 2010, UK Peer Review]. The quality of UK aid is another proof of the effectiveness of reforms that were implemented by the Labour government in 1997. The softening of development aid policies that they chose has brought clear dividends. If a coalition government succeeds in implementing its plans,

66 Needs are assessed based on such parameters as a number of people living on less than US$2 a day, country's performance on the Human Development Index and the level of fragility. Effectiveness is assessed based on the World Bank Country Policy and Institutional Assessment (CPIA). See more: DFID. 2011. "Bilateral Aid Review. Technical Report." London: Department for International Development.

adopts the law on setting 0.7 target as mandatory, and avoids the temptation to make cuts in aid programs at times of unfavorable economic conditions, the United Kingdom will be well positioned to enter the ledgers of history as a donor that in reality succeeded in changing radically its mode of engagement in international development cooperation.

***

Traditional donors form the core of the donor community. Regardless of the increased activism of other actors, they retain their positions as agenda-setters in the sphere of international development cooperation. These countries, which belong to the West in geopolitical terms, began early to coordinate their efforts in providing assistance to developing countries within the OECD-DAC and to counter the expansion of the influence of the Soviet Union and Eastern bloc countries. They competed with each other and pursued their specific ideological, political and economic interests. The structure of these interests determined the model they chose for their engagement in international development cooperation. The three models described in this lecture – the American, the Nordic and the British do not exhaust all the varieties of national aid strategies represented in the DAC. They were chosen not because the other countries lacked distinction or acted less effectively.

The United States, the Nordic donors, and the United Kingdom attract special attention. For the United States it is because of nominal aid levels, the scope of global commitments and the highest degree of influence of the political and strategic imperatives on their aid determinations. For the Nordic countries it is their highest aid levels as a percentage of GNI, their focus on providing assistance to the poorest people in the poorest countries, and for steadfastly implementing their commitment to 'humanitarian internationalism'. For the United Kingdom, it is their long-standing cultural-historical ties with developing countries which were established in the colonial epoch and a unique institutional-legal system of engagement in international development cooperation that ensures unprecedented rates of progress in re-orientation of levels and purposes of aid towards poverty reduction and meeting recipients' needs. However, it is quite possible that in the future the strategies of these and other traditional donors can undergo transformation due to the necessity of adapting to the changing aid architecture in which the voice of the emerging donors has started to sound louder and louder.

SELF-CHECK QUESTIONS

1. Which countries form the club of traditional donors? When did they enter the club?
2. What are the main trends in the distribution of aid flows from DAC members?
3. Which criteria can be used to construct a typology of traditional donors?
4. Which factors determined the prevalence of political and strategic components in the structure of interests of the U.S. as a donor?
5. Describe the influence of the end of the Cold War; the terrorist attacks of 9/11; Obama's ascension to power on U.S. development policies.

6. What is specific about the organizational map of aid management in the U.S.?
7. Describe the U.S. national aid program in terms of nominal aid levels, channels of delivery, aid modalities, and financing instruments.
8. What are the main geographical and sector priorities of current U.S. development policies?
9. What are the reasons behind the generosity and altruism of the Nordic donors? The policies of which country are characterized by the relative prevalence of egoistic interests?
10. What is specific about aid programs of the Nordic donors in terms of the organizational map of management, distribution by channels of delivery, regions and sectors?
11. What is "Nordic+" group?
12. Please name the main phases in the development of the national aid system in the UK.
13. How did UK development policies change after the Labour government's ascension to power in 1997?
14. What is unique about the organizational model of aid management in the UK?
15. Please describe the UK aid program in terms of distribution by channel of delivery, region and sector.

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LECTURE №6

EMERGING DONORS: COMMONALITIES AND PARTICULARITIES

Lecture outline

1. Emerging donors: past and present
2. Emerging donors' national aid strategies
2.1. Emerging donors following the OECD-DAC model
2.2. Arab donors
2.3. Providers of South-South cooperation
3. Increased activism of emerging donors: opportunities and risks

The international aid architecture is rapidly changing as "emerging donors" (new providers of development assistance) enter the scene. This term is used with respect to the actors that were not original members of the club of established donors – the OECD-DAC. The proponents of a broad interpretation includes both state and non-state providers of aid (such as private foundations and NGOs) in the "emerging donors" category. A narrow interpretation refers only to new countries beyond the DAC. In this lecture the narrow interpretation will be used.

1. Emerging donors: past and present

Emerging donors constitute a very heterogeneous group. It includes many countries that are radically different in terms of their political-economic parameters, their role in international relations, and the model of their delivery of aid. Non-membership in the OECD-DAC, is, indeed, the only common feature. For that reason the donor community seeks to identify both more individual and more homogenous subgroupings within the group of emerging donors. The latest typology proposed by the OECD-DAC is based not on institutional or geographic criteria, but on their model of participation in international development cooperation and their interaction with the club of established donors. This typology identifies three distinctive groupings – each with a particular model of providing aid: 1) emerging donors who follow the DAC model (Bulgaria, Hungary, Cyprus, Latvia, Lithuania, Malta, Poland, Romania, Slovenia, Slovak Republic, Czech Republic, Estonia, Iceland, Israel,Turkey, Liechtenstein, and Russia); 2) emerging Arab donors such as Kuwait, Saudi Arabia, United Arab Emirates (UAE), and Qatar[67]; 3) emerging donors who are providers of South-South cooperation (Brazil, Venezuela, Egypt, India, China, Colombia, Malaysia, Mexico, Thailand, Chile, and South Africa) [Zimmermann and Smith 2011]. However, none of these sub-groupings is entirely homogeneous. The aid strategies of countries that belong to these three given subgrouping can (and do) vary significantly from each other.

67 Arab donors are also engaged in South-South development cooperation. The fact that they form a separate subgrouping is explained by a distinctive approach to aid delivery and interaction with established donors which is totally different from the policies of the BRICS

Regardless of the fact that the term "emerging" has become very widespread in usage, most of the so-called emerging donors are not new to giving aid. The history of official economic cooperation and mutual support for many of these states can be traced back to the 1950s. The 1955 Bandung Conference of Asian and African States marked a significant milestone in the creation of the Non-Aligned Movement. It was the official beginning of a collective voice for the South. The Final Communiqué from the Bandung Conference specifically articulated the aspiration for economic cooperation and growth, along with a commitment to provide technical assistance to each other facilitating the exchange of ideas, experts, and specific training [Watlz and Ramachandran 2011, p.3]. The driving force behind this cooperation was not moral obligations, as in the relationship between the Western donors and their former colonies, but mutually beneficial partnership of the peers.

In the decades that followed from the beginning in 1955, aid programs emerged to support the economic cooperation endorsed by the Bandung Conference in providing South-South cooperation. Some countries (India, Brazil) also were large recipients of the foreign aid. For the rich countries of the Persian Gulf, Kuwait, UAE, and Saudi Arabia, their wealth grew substantially due to the oil price boom. Overall, Arab donors have been among the most generous in the world. Between 1974 and 1994 their ODA represented on average 13 percent of the total DAC ODA. This amounted to nearly three-quarters of non-DAC ODA. Arab donors averaged 1.5 percent of their combined GNI, five times the OECD-DAC average [World Bank 2010, p.5-7]. The first regional financial institutions were also established by Arab donors.

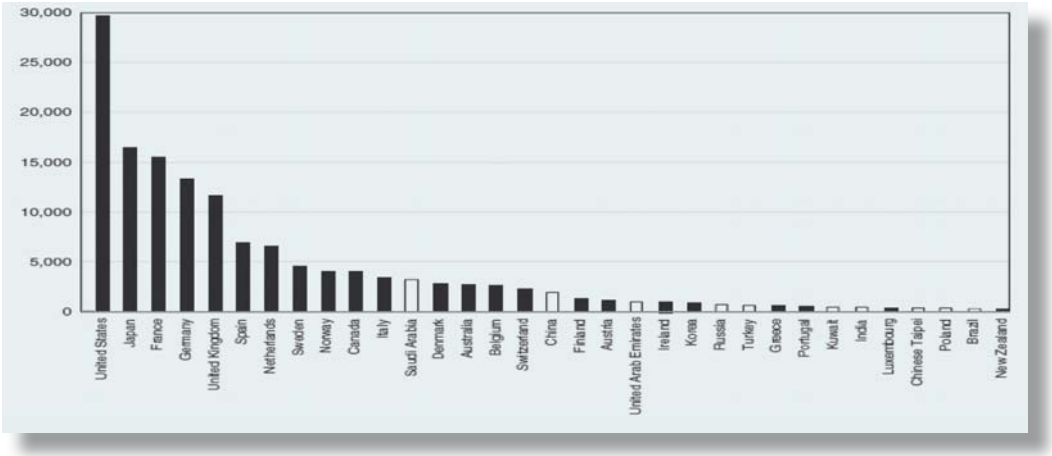
The Bandung Conference made the members of the Socialist Bloc – the Soviet Union and the countries of Central and Eastern Europe (East Germany, Poland, Czechoslovakia, Hungary, Romania) – pay attention to the Third World which was consolidating under the influence of decolonization. The Socialist Bloc started competing for influence with the Western countries using a very wide spectrum of instruments including development assistance, or economic cooperation, as it was called by the USSR and the "countries of popular democracy". Like the Soviet Union, the Socialist Bloc countries focused on providing aid to developing countries that chose the socialist/non-capitalist path of development, and which pursued favorable or, at least, neutral policies towards the Warsaw Pact members (the only exception being Turkey that was a NATO member). Besides bilateral aid, they also made contributions to multilateral institutions. However, their share of aid in relation to GNI was significantly lower than by the Western countries (about 0.06 percent in 1980).

The distribution of roles in international aid architecture changed substantially in the 1980s. Aid between Southern countries declined dramatically as most states were coping with high levels of debt and inflation. The debt crisis forced countries to turn their attention inwards which significantly reduced South-South cooperation. OPEC countries were also more constrained [Waltz and Ramachandran 2011, p.4]. Finally, under the influence of the systemic crisis in the USSR and countries of the Eastern Europe, the volumes of aid provided by the Second World to the Third World decreased significantly. In 1989, after the fall of the Berlin Wall, these countries became aid recipients themselves, and were included in Part II of the DAC list of ODA recipient countries. The aid provided to these countries did not meet the ODA criteria and was reported as "official aid").

In the 1990s, the original countries began to dominate as aid donors, representing over 95 percent of all international aid flows [Manning 2006, p.372-3]. However, by the end of the decade, a Southern presence re-emerged. Dramatic economic growth in many "Third World" countries (Brazil, India, China, South Africa, Turkey, Venezuela) provided a model for successful development that was not dependent on the West. Regional powers sought to increase their influence with neighboring countries, and South-South cooperation proved a way to gain more leverage in the international arena [Waltz and Ramachandran 2011, p.5]. The Arab donors started boosting their aid programs again as oil prices rose anew. The countries of Eastern Europe (Poland, Czech Republic, Hungary, Slovakia, and Romania) successfully completed a transition period, started entering the EU and developing their own aid programs. Their aid programs were oriented primarily towards a transfer of successful experience to neighbor countries.

These processes of change resulted in a noticeable transformation in the architecture of foreign aid which is reflected in the most recent list of the largest donors presented below.

Figure 6.1. 2009 Gross ODA Flows of DAC Donors (black) and selected other countries (white), current US$ million



Source: Zimmermann and Smith, 2011, p.723.

According to estimates of DAC OECD experts, the gross volume of development assistance provided by the emerging donors between 2005 and 2009 more than doubled (from US$4.6 billion to US$11 billion) [Zimmermann and Smith 2011, p.724] and amounted to almost 8 percent of ODA provided by the DAC members. These figures can not be considered totally accurate because only 22 countries beyond the DAC regularly report to the OECD. Moreover, the reported levels of ODA to the DAC may not capture all aid flows.

Non-reporting or providing incomplete data is explained by several factors. First, these countries do not have the necessary statistical systems to account for all aid flows. It can be especially difficult when many agencies are involved in providing aid. Second, the governments of some countries consciously avoid publishing complete data because that would force them to explain to their own fellow citizens why these funds are not being used for poverty reduction within their own national boundaries, and would lead to their perception as aid donors which could be detrimental to their role in groupings of developing

countries such as the Group 77. Third, these donors are afraid that adoption of the DAC reporting criteria would require adherence to the principles and recommendations of the club of established donors, and could prevent them from receiving ODA themselves.

This combination of factors has resulted in a very high variation in estimates of the volumes of aid which are provided by emerging donors: the difference sometimes can reach billions of dollars. The upper estimates are likely to include direct foreign investments as well.

Table 6.1. Estimates of Foreign Aid as a Donor and Recipient, 2009 (or most recent year), US$ million

Outflows of aid					Inflows of aid	
Country	US$ million		percentage of GNI		US$ million	percentage of GNI
	Lower estimate	Upper estimate	Lower estimate	Upper estimate		
Brazil	356	4,000	0.03	0.30	338	0.03
China	1,550	25,098	0.04	0.71	1,132	0.03
India	488	2,171	0.04	0.16	2,502	0.18
South Africa	109	475	0.04	0.17	1,075	0.39
Venezuela	1,166	2,500	0.51	1.09	67	0.03
Turkey	707		0.12		1,367	0.233
Russia	785		0.07			
Saudi Arabia	3,134		0.82			
Kuwait	221		0.14			
UAE	834		0.80			
Non-DAC EU	1,140					
TOTAL	**11,076**	**40,994**				

Source: Waltz and Ramachandran, 2011, p.7.

Even if we use the lower estimates it is clear that the presence of emerging donors in the contemporary aid architecture has been becoming more and more visible. As Richard Manning argues, the nearly absolute dominance of the DAC in the 1990s was an exception; the historical norm actually includes a high share of non-DAC aid [Manning 2006, p.31].

2. Emerging donors' national aid strategies

2.1. Emerging donors following the OECD-DAC model

This grouping consists of the countries that have developed their national aid systems based upon the model of the normative basis, strategy and institutions of established donors. It includes twelve new EU members that build their aid programs with orientation toward EU principles (Bulgaria, Hungary, Cyprus, Latvia, Lithuania, Malta, Poland, Romania, Slovenia, Slovak Republic, Czech Republic, Estonia), non-DAC OECD members (Iceland, Israel and Turkey), and finally, two non-members of the OECD – Liechtenstein and Russia. All the aforementioned countries report to DAC according to its methodology and adhere to the principles of the Paris Declaration of 2005.

Table 6.2.ODA from Non-DAC Donors reporting to DAC (US$ million)

	2005	2006	2007	2008	2009	2010	Share of bilateral aid (percentages)	ODA/GNI
EU								
Hungary	100	149	103	107	117	114	25	0.09
Cyprus	15	26	35	37	46	51	59	0.23
Latvia	11	12	16	22	21	16	10	0.06
Lithuania	15	25	48	48	36	37	45	0.10
Malta		-	-	-	14	14	61	0.18
Poland	205	297	363	372	375	378	25	0.08
Romania		-	-	123	153	114	23	0.07
Slovak Republic	56	55	67	92	75	74	27	0.09
Slovenia	35	44	54	68	71	59	38	0.13
Czech Republic	135	161	179	249	215	228	35	0.13
Estonia	10	14	16	22	18	19	26	0.10
Non-EU								
Israel	95	90	111	138	124	145	88	0.07
Iceland	27	42	48	48	34	29	73	0.28
Liechtenstein		-	20	23	26	27	82	-
Russia*	-	-	-	-	-	472	64	0.03
Turkey	601	714	602	780	707	967	95	0.13

Source: OECD DAC. Statistics on Resource Flows to Developing Countries. Table 33 - ODA from Non-DAC Donorshttp://www.oecd.org/document/9/0,3746,en_2649_34447_1893129_1_1_1_1,00.html
** The absence of data on Russian aid flows between 2005 and 2009 does not mean that the Russian Federation did not provide international development assistance. It is explained by the fact that it reported to the OECD-DAC for the first time in 2011 for aid provided in 2010.*

New EU members. Twelve new EU members form the core of one of the subgroupings of emerging donors which are following the OECD-DAC model. Many of these countries (notably, the countries of Central and Eastern Europe) have had a previous rich experience providing aid during the Cold War. They have also had a successful experience of democratic transition and in building market economies with support from the original EU members which they can share with neighbor countries. These twelve countries have begun to re-establish their aid systems with support from the UNDP and the established donors. By the mid-2000s developmental aid programs were launched within all countries except Bulgaria and Romania. The twelve newest members of the EU have all adhered to the 2005 European Consensus on Development, pledging to increase net ODA to 0.17 percent of GNI by 2010 and 0.33 percent by 2015 [Zimmermann and Smith 2011, p.724].

As members of the OECD, these countries have full observer status and participate in DAC meetings. Several countries, including the Czech Republic and Poland, have already received DAC peer reviews. When deciding on membership, the DAC will assess the size of the country's aid program, the existence of supporting institutions, the quality of statistical reporting, and the degree of implementation of DAC recommendations [Waltz

and Ramachandran 2011, p.10]. Apart from the relatively small size of these countries' aid programs, the quality of statistical reporting remains the main obstacle to getting OECD-DAC membership.

Organizational model. Most countries within this subgrouping opted for the organizational model "Ministry of Foreign Affairs". This uses one of the OECD-DAC typologies; namely the establishment of a special development cooperation department within the MFA. The model of an independent agency responsible for project selection and management and subordinated to the MFA has been established only in the Slovak Republic and Czech Republic . The choice of the "MFA" model is explained by the determination of the new EU members to retain political control over the distribution of development finance.

Aid levels. Since all countries report to the DAC using DAC methodology, the estimates of gross volumes of ODA can be considered accurate. The levels of aid provided by the new EU donor countries remain insignificant in comparison with traditional donors. The Vyšehrad Four countries – Poland, Czech Republic, Hungary, and Slovakia – have the largest programs. Only Cyprus, Malta, and Slovenia appear on track toward meeting the pledges outlined in the European Consensus on Development [Lundsgaarde 2011, p.2].

Priority aid modalities. Given their orientation towards the EU and their aspirations to become DAC members, multilateral aid often represents a large share of the aid portfolios of the new donors. In 2009 Hungary and Poland disbursed 75 percent and Slovenia 65 percent of their aid through multilateral channels. EU development programs serve as privileged multilateral partners. In 2009, Poland was the 8th largest contributor to the EU's general budget for development assistance, playing a special role in funding the European Neighborhood and Partnership Instrument and Pre-Accession Assistance [Lundsgaarde 2011, p.2].

At the same time new EU donors began to strengthen their national systems for providing bilateral aid. There are signs that the new donors differ from more established EU donors in terms of aid practices. A preference for disbursing aid in a manner that ensures a direct return to the donor country, whether through tied aid or funding student costs, as well as a preference for project assistance stand in contrast to norms advocated by the DAC original donors within the EU, signaling the limitations of the EU as a standard setter. Indeed, in some cases there may be clear resistance to development policy norms promoted at the EU level, including prioritizing poverty reduction and demanding greater country-level coordination. Overall, their strategic orientation toward the OECD-DAC does not automatically mean that they follow all the norms of EU development cooperation. Therefore, the incorporation of this subgrouping of countries into the established ODA architecture can still be challenging [Lundsgaarde 2011, p.3].

Geographical and sector priorities. Geographical priorities of the new EU members differ from those of established European donor countries. Though the EU is already globally active in development, the African continent has been a clear focal region for European engagement. One general trend of new donors in geographical aid allocation

is the preference for helping the countries in their regional geographic neighborhood: the Balkans and former Soviet republics are privileged recipients. Main partner countries outside of these regions tend either to be countries where the donors have contributed to multilateral security operations (Afghanistan and Iraq) or countries where there have been historical affinities due to shared experiences with socialist regimes [Lundsgaarde 2011, p.2]. In most of the priority sectors emerging donors play a more significant role than established ones. For example, more Ukrainians receive scholarships funded by the Vyšehrad Four than by the rest of the EU put together[68].

The areas of focus for the new twelve EU members have included social sectors, higher education, good governance and democracy promotion, and environmental protection. Many new EU donors emphasize their commitment to sharing lessons learned from the process of political and economic transition with other states as part of their development cooperation contributions [Lundsgaarde 2011, p.2]. In addition, democracy support represents a high proportion of Eastern EU bilateral development assistance projects. For some countries, such as Latvia and Poland, this number is as high as 46 percent and 45 percent, respectively. Even the second least active donor, Hungary, funds bilateral democracy projects with about a quarter of all its bilateral development projects[69].

Table 6.3. Geographical and Sector Priorities of Leading Central and Eastern European Donors

	Hungary	Poland	Romania	Slovenia	Czech Republic
Main partner countries	Afghanistan Bosnia and Herzegovina Kosovo Moldova Palestinian territories Serbia Ukraine Vietnam	Afghanistan Angola Belarus Georgia Moldova Palestinian territories Ukraine	Afghanistan Georgia Iraq Moldova Serbia	Albania Bosnia and Herzegovina Kosovo Macedonia Moldova Montenegro Serbia Ukraine	Afghanistan Angola Bosnia and Herzegovina Moldova Mongolia Serbia Vietnam Yemen Zambia
Priority sectors	Good governance Higher education Health Agriculture Water supply Environment	Education Health Water supply Infrastructure Agriculture Post-conflict rehabilitation Economic reforms Democratization	Democracy promotion Economic development Education and employment Health Infrastructure Environment	Higher education Government and civil society Migration Education Conflict prevention and resolution	Education Water supply Health Peacebuilding and conflict prevention Refugee assistance

Source: Lundsgaarde 2011.

Table 6.3 clearly shows that the new EU donors can be considered as a rather homogenous group, even if their priority modalities, regions and sectors of aid allocation are not identical.

68 Shapovalova N. and Shumylo O. "Ukraine: Supporting Elusive Consolidation," in Kucharczyk and Lovitt, eds., Democracy's New Champions: 267–95.

69 Petrova. Tsveta. 2011. "The New Role of Central and Eastern Europe in International Democracy Support". Washington, D.C.: Carnegie Endowment for International Peace, p.11.

Other countries. Such large players in the sphere of international development cooperation as Russia, Turkey, and Israel have a long history of donorship. Like the emerging donors of Central and Eastern Europe, Russia, Turkey and Israel differ from the original European donors. Since Russia's experience of participation in international development cooperation is going to be examined in a separate lecture, we will provide a brief description only the of aid programs of Turkey and Israel.

Turkey. Not a new donor, Turkey's foreign aid program began in 1985 with a package of aid to the Sahel countries. For the most part of its modern history Turkey remained a net recipient of foreign aid. Despite a rapid increase in the amounts of aid it provides, it still receives more aid than gives (US$1,043 vs US$967 million in 2010). Today Turkey is in the top 20 of the largest global donors. It provides only slightly less gross ODA than does South Korea. The Turkish International Cooperation and Development Agency (TIKA) was founded in 1992.

The Turkish aid program aid is mostly targeted at neighbors and strategically important partners although contributions to Africa are growing. The regional distribution of Turkish aid is as follows: South and Central Asia – (52 percent), Middle East and North Africa – (19 percent,) Europe – (15 percent), Sub-Saharan Africa – (6 percent), Other Asia and Oceania – (3 percent), Latin America and Caribbean – (1 percent). Top 10 recipients of the Turkish aid are: Afghanistan, Kyrgyzstan, Kazakhstan, Iraq, Pakistan, Azerbaijan, Palestine, Bosnia-Herzegovina, Lebanon, and Turkmenistan. One of the most important features of the Turkish aid program, and where it differs from the new EU donors is its extremely low share of multilateral aid. The nominal volumes have remained at the level of the year 2000 (about US$50 million). Its share of multilateral aid is constantly decreasing. Today multilateral aid accounts for about 10 percent of total ODA. Another important feature of its aid program is that Turkey does not take part in debt relief. Aid is primarily delivered in the form of technical assistance projects.

Israel. Israel's aid program is run primarily by MASHAV, the Centre for International Cooperation of the Ministry of Foreign Affairs. Nominal aid levels are increasing but not as rapidly as in Turkey. Between 2001 and 2010 aid increased from US$93 million to US$141 million. The share of aid in relationship to GNI remains very low (about 0.07 percent in 2010). Israel's geographical priorities of aid allocation differ radically from those of Turkey and are as follows: Middle East and North Africa (36 percent), Sub-Saharan Africa (31 percent), Europe (15 percent), South and Central Asia (8 percent), and Latin America and the Caribbean (8 percent), Other Asia and Oceania (2 percent). Top 10 recipients of the Israeli aid are Jordan, Ethiopia, Ukraine, Eritrea, Sudan, Lebanon, Belarus, Uzbekistan, Georgia, and China. Israel, like Turkey, provides almost all of its aid bilaterally (90 percent) and focuses primarily on providing technical assistance and organizing training programs in developing countries. Israel does not take part in debt relief and does not provide humanitarian aid.

***

The countries that belong to the first subgrouping provide aid following the OECD-DAC model. The interaction with partner countries is based on the traditional "donor-recipient" scheme. Aid programs in most countries are relatively recent (or reestablished after a long break) and are quite modest in scope if estimated as percentage of GNI. However, these countries seek to be perceived as full members of the international donor community represented by the DAC. The DAC, in its turn, seeks to provide full-fledged support to these countries assisting them in reporting their ODA flows in accordance with the DAC principles. This assistance is in accord with the DAC general strategy of cooperation with pivotal bilateral donors beyond the Committee. Since 2008 the DAC Secretariat has been organizing special missions aimed at strengthening the statistical reporting capacities of these donors. These missions are meant to let key representatives from the ministries and agencies of the countries responsible for data collection report aid in accordance with DAC reporting standards.

2.2. Arab donors

Arab donors, such as Kuwait, Saudi Arabia, the UAE have been major players in the field of international development cooperation for decades. The institutionalization of national aid programs began even prior to the boom in oil prices in the 1970s. Unlike SSDC providers, they appear comfortable with the donor label. Yet, their approaches to development assistance are different from those used by most DAC donors. They do not have much in common with those countries that adhere to the DAC principles despite the fact that they report their aid statistics (however incomplete) to the OECD.

Goals and principles. Aid has been an important instrument to demonstrate solidarity among Arab countries, helping to support and stabilize states in situations of conflict and fragility. Aid also supports religiously motivated activities such as the building of mosques, and the transportation of the Holy Koran and food aid during the holy month of Ramadan [Zimmermann and Smith 2011, p.729].

Organizational model. Their administrative structures for aid are light, both at their headquarters and at the field level. There is a strong focus on project delivery. Arab financial assistance is managed by a complex array of national and multilateral agencies. Kuwait, Saudi Arabia, and UAE have long-established national aid agencies in the form of bilateral assistance funds. Examples are the Kuwait Fund For Arab Economic Development established in 1961, the Abu Dhabi Fund for Development established in 1971, and the Saudi Fund for Development established in 1974. In addition, there are five main regional financial institutions: the Arab Fund for Economic and Social Development (AFESD) founded in 1971; the Arab Bank for Economic Development in Africa (BADEA) founded in 1973; Islamic Development Bank (IsDB), the largest of these institutions, founded in 1975; the OPEC Fund for International Development (OFID), established in 1976; and the Arab Monetary Fund (AMF), established in 1976. Strictly speaking, IsDB and OFID are not exclusively Arab-financed institutions, but Arab countries provide the largest share

of funding. The Arab Gulf Programme for United Nations Development Organizations (AGFUND), founded in 1980, plays a major role in financing technical cooperation and humanitarian assistance through its support for specialized UN agencies. In 1975, bilateral and multilateral Arab donors formed a Coordination Group intended to help harmonize development co-operation policies, streamline procedures for project management and promote the co-financing of projects. The Coordination Group consists of nine institutions – three national ones (Kuwait, Saudi Arabia and UAE) and five regional organizations, in addition to the Arab Gulf Program for United Nations Development Organizations [World Bank 2010, p.15].

Aid levels. Overall, Arab donors have been among the most generous in the world, with ODA totaling US$272 billion (in 2007 prices) between 1973 and 2008 [World Bank, 2010, p.xii). Saudi Arabia, Kuwait and the UAE account for more than 90 percent of total Arab ODA [World Bank 2010, p.1]. Qatar is one of the more recent Arab donors, and it is the Gulf country with the highest income per capita. Yet little data or information about its foreign aid activities is available. The generosity of Arab donors is illustrated by the share of ODA in GNI has averaged 1.5 percent of combined GNI during the same period, peaking at over 12 percent for UAE and at about 8.5 percent for Kuwait and Saudi Arabia in 1973. Arab ODA represented on average 13 percent of total DAC ODA and nearly three-quarters of non-DAC ODA between 1973 and 2008. (About one-third of all ODA during the 1970s was from Arab donors) [World Bank 2010, p.xiii].

From this extraordinarily high starting point in the 1970s and early 1980s, levels of Arab ODA have declined, although they remained well above the OECD-DAC averages as a share of GNI. The downward trend can be explained by a combination of several factors. First, the levels witnessed in the 1970s and early 1980s were very high by international standards and could not be sustained over time. Second, funding available for ODA in these countries has been reduced as a result of declining oil revenues and growing national spending on wages, transfers, debt service, and social services for a growing population. Third, external factors such as regional security concerns have also reduced to some extent funds available for ODA. *In the last few decades aid levels did not reach the UN target of 0.7 percent*. The Arab ODA-to-GNI ratio remains more than twice the average of 0.3 percent of GNI among the OECD-DAC members for 2008 [World Bank 2010, p.xiv].

Priority aid modalities. As for composition of aid, Arab donors differ significantly from the DAC members and those emerging donors that follow their model. The average ratio of bilateral to multilateral ODA between 1973 and 2008 was 87:13, but changed in the last 15 years. Between 1995 and 2007 it amounted to 89:11, and reached 95:5 in 2008. The composition of Arab bilateral ODA also underwent significant changes over the last decade. Until 2000, over two-thirds of Arab bilateral ODA was in the form of grants. Since then, the share of grants has dropped to 40 percent; most aid is provided in the form of soft loans [World Bank 2010, p.x] Of the Arab ODA that is channeled through multilateral sources, some 4 percent has been transmitted through Arab financial institutions, 4 percent through the World Bank, 2 percent through UN agencies, and just under 1 percent through the African Development Bank (AfDB) [World Bank 2010, p.14]. Contributions to Arab

financial institutions has almost quadrupled since the 1970s. Arab financial institutions have also participated in debt relief operations (through rescheduling). They have provided balance of payments and budget support, as well as technical assistance.

ODA for humanitarian purposes has been directed through the Red Crescent Societies and other non-governmental organizations. Consolidated sources of information are not available for these contributions [World Bank 2010, p.14]. An important feature of Arab aid is that it is generally untied, and is offered without conditions or restrictions [World Bank 2010, p.166]. Arab donors are also unique in the procurement and disbursement processes. In contrast with other Southern donors, Arab donors require a competitive bidding process. This process allows for local suppliers and contractors to implement projects [Waltz and Ramachandran 2011, p.13].

Geographical and sector priorities. Arab aid is distinct from the DAC model. It remains primarily concentrated regionally. It is more openly influenced by social solidarity and religious ties. Aid has been directed primarily to neighboring Arab and predominantly Muslim countries. This characterization applied to both national programs and multilateral institutions whose mandates contain certain restrictions. The Arab Fund for Economic and Social Development, which houses the Coordination Group, gives only to Arab countries with the stated goal of furthering economic and social development as well as regional integration. The Islamic Development Bank, one of the largest Arab donor agencies, does lend only to countries which are members of the Organization of Islamic Conference and provides financing compatible with Shari'ah law which prohibits the collection of interest on financial transactions [Villanger 2007, p.19].

Arab aid retains its regional focus: the bulk of financing still goes to the countries of Middle East and North Africa. Arab aid has played a major role in total ODA flows to some countries. In Syria, Arab ODA accounts for over 70 percent of total ODA from all sources. In Morocco, Lebanon, Yemen, and Jordan, Arab ODA represents between 20 percent and 40 percent of total ODA. Arab ODA also accounts for 10 percent–20 percent of total ODA in the West Bank and Gaza, Somalia, Sudan, Turkey, Egypt, Mauritania, and Djibouti.

The focus of Arab countries has become more global. Implementing the principle of strengthening Arab-African solidarity, there have been increasing levels of aid to the poorest countries in Sub-Saharan Africa such as Mali, Mauritania, Senegal, Somalia, and Sudan; and in Asia such as Cambodia, Bangladesh, Nepal, Pakistan, Sri Lanka, Tajikistan, and Vietnam. The Kuwait Fund, the Saudi Fund and the OPEC Fund are the most global in focus, also financing projects in Europe and Latin America. The sector focus of Arab ODA has broadened over time to include agriculture, health, education, and social services. Over the period between 2000 and 2007 the regional composition of Arab aid was as follows: Middle East (61 percent), North Africa (15 percent), Sub-Saharan Africa (10 percent), Asia (9 percent), Europe (4 percent), Latin America (1 percent) [World Bank 2010, p.13-15].

In addition to national projects, Arab financial assistance agencies support projects that foster regional economic integration, particularly in roads, energy and hydropower infrastructure, and South-South cooperation. For instance, in 2007, BADEA financed five road projects to promote trade between Burkina Faso, Chad, Sierra Leone, Rwanda, and Cameroon. AFESD's contribution to Arab regional integration is the financing of

the Arab Electricity Grids Interconnection Projects. In the area of capacity building and research, AFESD joined with the World Bank to establish the Research Initiative for Arab Development. IsDB has also supported regional integration in Africa through assistance to, for instance, the Trans-Sahara and Trans-Sahel roadways. There is a growing effort among Arab financial institutions to promote South-South cooperation, as illustrated by the IsDB Capacity Building Programme [World Bank 2010, p.15].

Distribution by sector. For decades the main sector where Arab aid was directed was infrastructure (energy, transport, water supply). However, the sector focus of Arab ODA has broadened over time to include agriculture (with an emphasis on food security), health, education, and social services [World Bank 2010, p.15].

Saudi Arabia has the largest aid program among all non-traditional donors that can be easily compared with the aid programs of such significant players as Belgium or Australia. Its US$3,245.8 billion gross ODA flows in 2009 exceeded the gross ODA volumes of 12 of the 23 DAC countries. The bulk of this aid is provided by the Ministry of Finance in the form of developmental grants and humanitarian assistance. In 2009, Saudi Arabia provided a total of US$209 million (6 percent) in multilateral contributions. Loans extended by the Saudi Fund for Development amounted to US$529 million (16 percent). The Saudi Fund finances investment projects through concessional loans, targeted at the transportation and energy infrastructure (60 percent), agriculture (18 percent) and social sectors (13 percent). Nearly 50 per cent of its loans are directed to low-income countries, with 28 percent for countries in Sub-Saharan Africa [Zimmermann and Smith 2011, p.730].

In recent years, the UAE has begun to document its whole-of-government aid flows. In 2008, a Federal Cabinet decree established the UAE Office for the Coordination of Foreign Aid, with the mandate to support the nation's delivery of foreign humanitarian and development aid by building capacities, sharing information and facilitating cooperation among donor organizations for the benefit of communities in need worldwide. In 2009, gross ODA flows extended by over 20 institutions amounted to US$1,038.2 million. Almost all aid was delivered bilaterally with 61 percent going to countries in the Middle East [Zimmermann and Smith 2011, p.729].

Kuwait reported gross ODA of US$528 million in 2009, but this only includes figures for the Kuwait Fund for Arab Economic Development. If whole-of-government aid flows were reported, as in the case of the UAE, the figures would likely be much higher [Zimmermann and Smith 2011, p.731].

Coordination. The relative cohesiveness and the high level of coordination reflected in the activities of Arab ODA is somewhat unique, and may be a result of common cultural, religious, and linguistic ties between Arab donors. Arab financial agencies coordinate policies and procedures and co-finance projects through a Coordination Group hosted by AFESD. Reports suggest that the use of common procedures has enabled Arab agencies to reduce transaction costs, foster greater transparency in project management, and improve project safeguards and accountability. Co-financing is the principal mechanism through which these agencies collaborate among themselves and with other development partners. The Coordination Group also participates in global initiatives to foster aid harmonization

and alignment. As for cooperation with established donors, the reporting principles are gradually improving, partly due to the partnership for building capacity between the Secretariat of the Coordination Group and the OECD-DAC [World Bank 2010, p.16].

2.3. Providers of South-South cooperation

Middle-income countries and emerging economies, many of which remain aid recipients, are the most active SSDC providers. The countries include Brazil, Chile, China, Colombia, Egypt, India, Malaysia, Mexico, South Africa, Thailand and Venezuela.

Goals and principles. Unlike the countries from the first subgrouping of emerging donors that develop their aid programs following the DAC model, providers of South-South Development Cooperation adhere to the alternative principles of South-South cooperation that were codified in two foundation documents: the Declaration on the Promotion of World Peace and Cooperation adopted at the Bandung Conference in 1955, and the Buenos Aires Plan of Action for Promoting and Implementing Technical Co-operation among Developing Countries, adopted by the United Nations General Assembly in 1978.

South-South cooperation is characterized by the following features:

- Support for economic independence and self-confidence;
- Financial aid is seen not only as ODA but as an instrument for strengthening solidarity (unity) through knowledge-exchange;
- Horizontal cooperation based on equal and mutually beneficial partnership as opposed to a vertical "donor-recipient" relationship;
- Respect for national sovereignty and the absence of political and economic conditionality;
- Implementation of the principle of multilateralism and the absence of discrimination;
- Sharing of "best practices";
- Promotion of bilateral and regional trade and investments;
- Interaction and integration on bilateral, multilateral, trilateral, regional, and subregional levels.

In 2010, the United Nations Conference on Trade and Development defined South-South Cooperation (SSC) as "the process, institutions and arrangements designed to promote political, economic and technical cooperation among developing countries in pursuit of common development goals."[70] In order to make a distinction between the broader concept of SSC and its specific development co-operation dimension, this paper uses a more specific term: "South-South Development Cooperation" (SSDC). It defines SSDC providers as developing countries that deliver expertise and financial support to foster the economic and social welfare of other developing countries [Zimmermann and Smith 2011, p.725]. However, SSDC is interpreted broadly and includes financial transfers, primarily, in the spheres of trade and investment that do not meet ODA criteria.

SSDC providers point to the importance of the principle of "non-interference in internal affairs" outlined in the Bandung Declaration. They do not attach either policy or governance conditions to the development cooperation they provide, except for China which conditions its aid on non-recognition of Taiwan. This stands in contrast to DAC

70 UNCTAD. 2010. "South-South Cooperation: Africa and the New Forms of Development Partnership." UNCTAD, Geneva.

donors who have taken an increasingly "hands-on" approach in their relations with partner country governments. In recent years, traditional DAC donors have moved away from macroeconomic and political conditionalities to a certain degree, yet still include safeguards and require conformity to labor and environmental standards [Waltz and Ramachandran 2011, p.18].

The goals of cooperation vary among providers of South-South cooperation. For smaller countries participation in South-South cooperation is more a reflection of a real need for exchange of experience. For "rising powers" such as Brazil, India, China and South Africa this cooperation serves as a tool to fulfill regional ambitions and provides an additional justification for their aspirations to acquire a higher status on the international arena (one of the reasons behind the increased activism of India, Brazil, and South Africa in the sphere of development cooperation is their desire to get permanent membership at the Security Council).

Organizational model. Most aid from Southern donors comes from a variety of agencies within their governments that often do not coordinate their efforts with each other. This in turn leads to the difficulties in measurement of the aid flows. This decentralization is explained by several factors. On the one hand, many providers of SSC prefer not to create an autonomous aid agency for ideological reasons because this tends to mean that the nation is branded as an "official donor," a designation which some Southern donors prefer to avoid. On the other hand, a broad interpretation of development cooperation makes it extremely difficult to unite heterogeneous activities under the auspices of one specialized body. Many Southern donors have a dual aid system: the Ministries of Foreign Affairs often control grants and technical assistance programs, while Export-Import banks manage loans [Waltz and Ramachandran 2011, p.19].

Aid levels. There is also a conspicuous lack of clear data from some of the largest and most rapidly evolving aid donors such as China, India, and Brazil. Many countries have no standard system for reporting ODA, or even definitions of what qualifies as development assistance. Information disseminated by the DAC Secretariat is often based on the official data published by the national governments.

Table 6.4. Estimate of gross concessional flows for development co-operation («ODA-like» flows) from the BRICS in 2005-2010 (US$ million)

Country	2005	2006	2007	2008	2009	2010	Source
Brazil	158.1	277.2	291.9	336.8	362.2	N/ D	Office of the Presidency, Brazil.
China	911.9	1,033.27	1,466.86	1,807.57	1,947.65	2,010.61	Fiscal Yearbook, Ministry of Finance, China
India	414.5	381.4	392.6	609.5	488.0	639.1	Annual Reports, Ministry of Foreign Affairs, India.
South Africa	42.0	49.1	85.2	89.2	119.5	98.4	Estimates of Public Expenditures 2009-2011, National Treasury, South Africa.

However, if we take into account that these countries have been large aid recipients, they may consciously underreport their aid flows to avoid internal dissent. These estimates can not be considered to be entirely trustworthy. These figures do make it possible to track the clear trend of increasing aid levels over the last 5 years. The largest providers of South-South cooperation are: China, India, Brazil, and South Africa (in a descending order) which reflects the size of the national economies of these countries.

Priority aid modalities. First, providers of SSDC regard themselves as peers engaged in mutually beneficial relationships with their partner and other South-South countries, prefer not to draw attention to their unilateral provision of concessional development finance, but rather to emphasize the exchange of technical skills. Second, aid is often provided (by India and China, for example) in the form of "packages" that can include not only concessional loans, grants and debt relief but also preferential trade and investment schemes [Zimmermann and Smith 2011, p.727]. Third, SSDC providers, like Arab donors, provide a larger share of aid flows through bilateral channels than the original DAC members. Fourth, they prefer project financing and rarely use budget support or sector-wide approaches. Fifth, SSDC providers, like Arab donors, also generally tie their development cooperation to the purchase of their own goods and services. China, for example, uses national companies as contractors and does not transfer monies to the Treasury account of a partner country.

Geographical and sector priorities. With the exception of China that aspires to become a global power in the future, providers of South-South cooperation tend to begin with small regional programs, and are increasingly expanding to include partners beyond their boundaries – especially those in Sub-Saharan Africa. Sector priorities differ considerably from those of established donors. Whereas the latter prioritize social sectors, providers of SSDC focus on aid to production sectors and infrastructure, and prioritize technical assistance and implementing capacity building projects in the social sectors.

Coordination. Providers of South-South cooperation, with the exception of China, demonstrate great willingness to coordinate efforts with each other, mainly to draw the established donors' attention to the problems of the global South. The most interesting example in this respect is India-Brazil-South Africa grouping. In 2004 these countries established a Fund for Poverty and Hunger Alleviation that proposed alternative modalities for providing development finance to developing countries. Cooperation with established donors is limited to policy dialogue and in certain cases, to technical assistance in statistical reporting. However, as the experience of the Fourth High Level Forum in Busan clearly shows, SSDC providers do not want to make commitments as donors. They continue to distance themselves from the OECD-DAC.

China.

China has a 60-year long history of participation in international development cooperation. Its origins can be traced back to 1950 when, a year after the creation of the PRC, Beijing provided material aid to North Korea and Vietnam. After the Bandung Conference of 1955 the focus of the Chinese aid program expanded to Africa and Latin

America. In the 1960s and 1970s the PRC was especially active in African countries where it initiated a series of large-scale infrastructure projects, the most well-known of which was the construction of a railway between Tanzania and Zambia. During this period, the assistance was aimed at providing aid to friendly Socialist regimes, securing recognition of the PRC as the sole legitimate representative of the Chinese people and to gain support of its aspiration to obtain permanent membership on the UN Security Council. After proclaiming "reform and openness" policies in 1978 the PRC became an aid recipient, but continued to provide assistance to other countries, though in smaller volumes. In the 1980s Beijing began to increase its level of assistance to the least development countries and to employ multilateral mechanisms. The 1990s was the time when China began the diversification of aid forms and modalities.

Unprecedented growth rates over last three decades have enabled China by the mid-2000s to lose the status of a net recipient of foreign aid and to become a net donor again. An important symbolic event occurred in 2005 when the World Food Programme, which had provided food aid to PRC for 25 years, sent the last lot of grain to China. This was the same year that DFID closed its program of bilateral aid to China. Then Chinese prime minister Wen Jiabao pledged that China would provide US$10 billion of concessional loans to African countries in the 2010-2013 timeframe, contribute US$1 billion to the China-Africa Development Fund (replenishing it up to US$10 billion), and would provide debt relief to heavily indebted countries who had diplomatic relations with China. However, China still remains one of the largest aid recipients in the world.

Goals and principles. Provision of assistance is regarded as one of the pivotal instruments of foreign policy by the Chinese leadership. It is meant to facilitate the achievement of the following goals: to foster friendly relations with recipient countries and to strengthen equal and mutually beneficial economic, scientific-technological, and humanitarian cooperation; to create favorable external conditions for continuation of internal economic, social, and political reforms; to promote peace, stability, and security globally and in the pivotal regions, primarily East Asia; to establish a belt of good neighbourliness along the borders of China; to strengthen China's international positions in the international trade, politics, economics, as well as within the international donor community.

China's participation in international development cooperation is carried out in accordance with "Eight Principles for China's Aid to Foreign Countries" (1964) outlined by the Chinese premier Zhou Enlai, in Accra (Ghana) on January 15, 1964. According to these principles, the Chinese Government always bases aid on the principles of equality and mutual benefit. China never regards such aid as a kind of unilateral alms; strictly respects the sovereignty of the recipient countries, and never attaches any conditions or asks for any privileges. It strives to help the recipient countries to embark step-by-step on the road toward self-reliance and independent economic development [Mardashev 2011, p.98-99].

Organizational model. China has a complex mechanism for management of aid. This mechanism was formed as a result of a large-scale reform in the mid-1990s which now includes both the Communist party and Chinese state institutions. The process of its optimization continues. There is no single state institution responsible for planning aid policies in China. This responsibility is divided between several bodies controlled by the

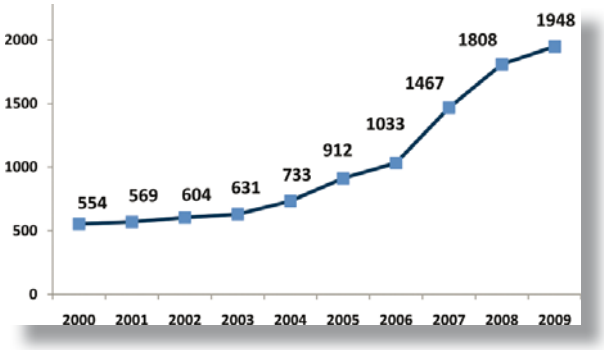
Communist Party. The superior institution responsible for aid management in China is the Leading Group on Foreign Affairs of the CPC Central Committee. This committee is headed by the General Secretary of the Party. It is located in the Foreign Affairs Office of the State Council which is headed by the Prime Minister. These institutions of the Communist Party, however, are not engaged in operational management.

The "big three" players in operational management are the *Ministry of Foreign Affairs*, the Ministry of Commerce and the Ministry of Finance. The Ministry of Foreign Affairs is responsible for interagency coordination, the formulation of the general conceptual basis of foreign aid policies, providing the justification for the political advisability of aid delivery, determining its volumes and forms, and for interaction with the governments of foreign countries. *Ministry of Commerce*, through the Department of Aid to Foreign Countries, is responsible for providing suggestions for aid policies; determining their economic advisability; preparing the necessary legal documents; managing the execution of bilateral assistance; including procurement and selection of subcontractors; and coordinating project implementation. The *Ministry of Finance* controls the aid budget, and is responsible for managing contributions to multilateral institutions. The line ministries (the Ministry of Agriculture, the Ministry of Education, the Ministry of Health, and the Ministry of Mass Communications) are also actively engaged in the process of providing assistance. Overall, there are between 15 and 23 agencies in China that play some role in international development assistance. Financing of projects funded by concessional loans is carried out by the EXIM Bank of China. The projects are implemented by the state-owned companies, associations, trade chambers, and federations.

Aid levels. There is no accurate and publicly available data on Chinese development assistance. Official data published discreetly by the Chinese government does not correspond with the commitments made, and the information provided by the press in China and other countries.

The available data shows a constant increase in aid levels. Over the last decades the gross aid flows have increased almost four times. They have risen from US$554 million to US$1,948 million (Figure 6.2). According to 2010 data, published by the Ministry of Finance of China, the PRC spent almost US$2 billion on development assistance. This includes grants, interest-free loans and subsidies on concessional credits. If the last two categories were included, the overall volume would increase up to US$3 billion.

Figure 6.2. China's Growing Development Cooperation, 2000–2009, US$ million.



Source: Zimmermann and Smith, 2011, p.728.

Priority aid modalities. Financial resources provided by China for foreign aid mainly fall into three types: grants (aid gratis), interest-free loans and concessional loans. According to the 2011 White Paper on China's Foreign Aid, the PRC offers foreign aid in eight forms: complete projects, goods and materials, technical cooperation, human resource development cooperation, medical teams sent abroad, emergency humanitarian aid, volunteer programs in foreign countries, and debt relief. China prefers to provide loans rather than grants and uses project financing rather than budget support. Many projects are tied to the purchase of Chinese goods. China generally uses bilateral channels for aid delivery. This choice reflects both the political ambitions of the country and its alienation from multilateral institutions. Multilateral aid is provided in the framework of regional arrangements with Chinese leadership. The Chinese government prefers to implement projects without engaging third countries. However, there are at least two programs of AsDB in which China understands the need to coordinate its efforts with other donors: the Greater Mekong Subregion (GMS) program, and the Central Asia Regional Economic Cooperation (CAREC) program.

Geographical and sector priorities. The geographical distribution of China's foreign aid shows a comparatively even coverage. The recipients are (mostly) developing countries in Asia, Africa, Latin America, the Caribbean, Oceania and Eastern Europe. By the end of 2009, China had aided 161 countries and more than 30 international and regional organizations, including 123 developing countries that receive aid from China regularly. Of them, 30 are in Asia, 51 in Africa, 18 in Latin America and the Caribbean, 12 in Oceania and 12 in Eastern Europe. Asia and Africa, home to the world's largest poor populations, receive about 80 percent of China's foreign aid. LDCs account for 39.7 percent of total aid allocations; other low income countries, 23.4 percent; low middle income countries, 19.9 percent; high middle income countries 11.0 percent; other countries, 6.0 percent.

Currently, the regional composition of Chinese aid is the following: Africa, 45.7 percent; Asia, 32.8 percent (the largest single beneficiary being North Korea; large volumes of aid are directed to Myanmar, Iran, and Pakistan); Latin America and the Caribbean, 12.7 percent; Oceania, 4 percent; Europe, 0.3 percent; and other regions, 4.5 percent. Oil-producing countries in Sub-Saharan Africa, such as Angola, Sudan, and Nigeria that the PRC regards as having strategic importance, are among the largest recipients.

The largest share of Chinese aid is directed to infrastructure and energy projects, including building railways, power stations, power transmission lines, and recently to projects in manufacturing. Many projects are aimed at raising the income levels and employment rates, strengthening of the health and other social systems, enhancing human potential, and building management capability.

Coordination. China does everything to retain the independence of its development policies. Of all SSDC providers, it is the least inclined to coordinate efforts with other donors. In 2009 the State Council Leading Group Office of Poverty Alleviation and Development of China established the China-DAC Study Group to expand opportunities for cooperation between China and African countries, and to increase the effectiveness of the joint programs which have been undertaken.

India

India has been the largest recipient of foreign aid for the most part of its contemporary history. Between 1951 and 1992 India received about US$55 billion. This has resulted in India being the largest recipient of ODA in history. India is still one of ten largest aid recipients in the world. Although India has provided aid to developing countries for decades, the real intensification of its efforts began only in the last decade. High growth rates of GNI (7 percent per year on average), investment, external trade and currency reserves (12th place in the world) strengthened the international position of the country. India has become a net exporter of capital and moves confidently towards losing the status of a net aid recipient. Against the background of the growth of the Indian economy the ODA to GNI ratio declined considerably.

Goals and principles. The main goal of Indian aid programs is to bolster the geopolitical influence of the country and to form active pro-Indian elite groups in the recipient countries. The key feature of its aid programs is the country's willingness to share its experiences in poverty reduction and economic development with help of a large pool of consultants and experts. An important goal of Indian aid is to counter the influence of China, its traditional geopolitical rival.

Organizational model. The system for aid management is rather fragmented. The lead agency for Indian development assistance is the MEA, which is directly responsible for the country's assistance to Bhutan, Nepal, and Afghanistan. The MEA also advises the ministries of finance and commerce on assistance to other countries. In addition to its country based programs for Afghanistan, Bhutan, and Nepal, the MEA also funds general programs such as ITEC and ICCR. The Ministry of Finance serves in an indirect capacity—although it exercises administrative oversight on EXIM Bank loans [Agrawal 2007, p.5]. A plan for an external aid agency was quietly buried in 2010 as no single department wanted to give up its powers and a consensus could not be reached. India's assistance is also delivered through a myriad of aid channels [Waltz and Ramachandran 2011, p.18-19].

Aid levels. Due to the increase of sources of finance and the radically different understanding of cooperation, Indian aid flows are very hard to measure. India's aid and loan program, as reported in the Annual Reports of the Ministry of External Affairs (2010), decreased to US$488.0 million in the 2009/2010 fiscal year, down from US$609.5 million in 2008/2009 [Zimmermann and Smith, 2011, p.727]. These figures include costs of technical and economic cooperation. However, not all development finance goes through established channels or according to clear budget lines.

Priority aid modalities. The largest share of Indian aid is delivered as training, creating opportunities, and other "soft" investments in recipient countries, but quite a few capital projects are supported with finance and technical assistance as well. As of 28 February 2011, India's Export Import Bank reported 135 operative lines of credit, most of which finance specific infrastructure projects in developing countries. These projects are delivered by Indian companies in sectors such as electricity, energy, irrigation and transport

[Zimmermann and Smith 2011, p.728]. Aid to other countries (especially in Africa) is distributed as follows: 60 percent for training of civil servants, engineers and managers for public sector in partner countries; 30 percent for providing credits for purchasing Indian equipment; 10 percent for financing for sending Indian technical experts. Levels of development assistance provided in the form of grants are insignificant. Like China, India prefers to provide tied aid.

Bilateral aid prevails over multilateral in the composition of the Indian aid. In spite of increased engagement of India in global governance arrangements, it did not make any pledges to reach the UN target. Among multilateral institutions India prefers to collaborate with minor regional organizations of South and South-East Asia, and Africa. Moreover, India shows great interest in strengthening cooperation within the IBSA Dialogue Forum.

Geographical and sector priorities. India focuses on providing development assistance to two regions: its neighborhood – Bhutan, Bangladesh, Nepal, Sri Lanka, and Afghanistan; and developing countries in Africa with which it has traditional political ties based on its leadership in Non-Alignment Movement, and the proactive role that it plays in the Commonwealth. Senegal, Tajikistan, Ethiopia, Vietnam, and Cambodia also receive large volumes of Indian aid. In accordance with its aspiration to become one of the leading world powers, India began to expand the geographical scope of its aid programs and cooperate with countries of Central and South-East Asia, and Oceania [Agrawal 2007, p.6].

Table 6.5. Principal destinations of India's Aid and Loan Programmes (excluding lines of credit), US$ million

Country/region	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Bhutan	250.1	131.5	168.4	277.9	269.4
Bangladesh	11.5	4.9	13.8	116.3	0.8
Nepal	14.6	51.0	23.0	96.5	31.0
Sri Lanka	5.5	6.8	6.5	49.7	16.6
Myanmar	4.9	9.7	4.6	26.0	11.4
Maldives	2.9	1.5	4.5	21.9	0.7
African countries	13.5	4.9	11.5	8.1	25.9
Mongolia					25.9
Afghanistan			100.0	6.9	59.4
Central Asia			4.6	4.3	4.1
Latin American countries			0.4	1.4	0.4
Other countries	111.5	108.1	55.3	0.5	42.5
TOTAL	**414.5**	**381.4**	**381.4**	**609.5**	**488.0**

Source: Zimmermann and Smith 2011, p.729.

Much of the assistance India provides to neighboring countries is for infrastructure projects that offer long-term value to India (such as hydroelectric projects) and which create public goodwill for India. Development assistance to Nepal and Bhutan is concentrated primarily on infrastructure, education, and health. India has much to offer other countries in terms of education and training opportunities. The Indian Technical and Economic Cooperation (ITEC) program covers 156 countries and together with the Special Commonwealth African Assistance Program (SCAAP) forms India's main vehicle for development assistance. The ITEC program and SCAAP, which provide technical assistance to countries in Asia, East Europe, Africa, and Latin America, have spent nearly US$2 billion since their inception. The technical assistance provided by these programs has four components: training, projects and project-related activities such as feasibility studies and consultancy services, deputation of experts, and study tours. Under the ITEC program, some 3,000 foreign candidates receive short-term training in India every year in a number of technical fields—from computer literacy to water management. There are more than 40,000 alumni of the ITEC program around the world [Agrawal 2007, pp.6, 9].

Brazil

After the Second World War Brazil started receiving aid in big volumes from the DAC members. However, as early as the end of 1960s it also began to provide aid to developing countries. In 1980s Brazil expanded its activities in the sphere of international development cooperation. Today Brazil is the largest economy in Latin America that accounts for a half of the gross GNI of the continent. Although the demographic, geographical, and economic resources of Brazil cannot be compared to those of India and China, the country is an active player on the world stage and a key provider of international development cooperation in Latin America. Brazil receives much less aid than China, India or South Africa.

Organizational model. There are several important focal points in Brazil's government for providing assistance programs, including: the Ministry of External Affairs and its adjunct the Brazilian Cooperation Agency (Agência Brasileira de Cooperação –ABC); the National Council for Scientific and Technological Development (CNPq), which is linked to the Ministry of Science and Technology (MCT); and the Ministry of Planning's Department for International Affairs (SEAIN). Important line ministries such as health, education and agriculture also play important roles. As Brazilian development assistance programs have grown and matured, the country's government has sought to introduce greater coherence to these programs through coordinating institutions such as the ABC, which was created in 1987. Despite this effort, the formulation and delivery of development programs remains largely fractured and decentralized [Vaz and Aoki Inoue 2007, p.2]. Brazil's ABC is divided into seven units, run by diplomats whose assignments change every few years, leaving no continuity and a lack of political clout [Waltz and Ramachandran 2011, p.19].

Aid levels. The absence of a centralized institution with overall responsibility for development assistance programs means that it is virtually impossible to calculate the precise amount of resources devoted to these activities. An absence of a central body responsible for managing ODA programs does not make it possible to measure accurately the aid flows

from Brazil. A recent report commissioned by the Brazilian presidency estimates that whole-of-government development cooperation doubled from US$158.1 million in 2005 to US$362.2 million in 2009 [Zimmermann and Smith 2011, p.727] .

Table 6.6. Principal modalities of Brazil's Development Cooperation, current US$ million

Modality of cooperation	2005	2006	2007	2008	2009
Humanitarian assistance	0.5	2.5	16.3	16.3	43.5
Scholarships to foreign students	23.1	25.9	28.9	38.6	22.2
Scientific and technical cooperation	11.4	15.0	18.3	32.1	48.9
Contributions to international organizations	123.1	233.7	228.4	249.9	247.6
TOTAL	**158.1**	**277.2**	**291.9**	**336.8**	**362.2**

Source: Zimmermann and Smith, 2011, p.727.

Priority aid modalities. An important feature of Brazil's engagement in international development cooperation is a bilateral-multilateral aid ratio which is radically different from that of established donors. 75 percent of development assistance over the 5-year period was provided in the form of contributions to multilateral organizations (primarily, Mercosur). Overall, Brazil partners with several dozens of international and regional organizations.

The country does not provide grants or concessional loans. Most aid programs are implemented in the form of providing technical assistance to developing countries. However, most recent joint ventures were implemented through trilateral arrangement with India and South Africa. China is also fast becoming an important partner of Brazil. It is worth mentioning that Brazil is one of the most active partners in trilateral partnerships both with established donors and international organizations. Brazil partners with such established donors as Japan, Germany, the United Kingdom, Canada, Spain, France and Italy. The priority sectors for trilateral cooperation are health, agriculture, strengthening human potential (technical assistance), and development research.

Geographical and sector priorities. Geographic priorities for Brazil have been Latin America generally and the country's Mercosur partners in particular, as well as East Timor, and the Portuguese-speaking nations of Africa. Priority areas for Brazil's TCDC programs are: agriculture, health (particularly HIV/AIDS), water, professional education, public administration, meteorology, energy, environment, electoral support, cooperation in sports, and production and use of biofuels (especially ethanol and biodiesel) [Vaz and Aoki Inoue 2007, p.2-3]. Brazil's Agency for Cooperation financed 236 projects in 46 countries in 2008. The sectors included were agriculture, education and health [Zimmermann and Smith 2011, p.727]. By 2012 this number has grown to 300.

South Africa

In apartheid era (1948-1994) South Africa was isolated internationally and used development assistance as an instrument of political control over politically and economically unstable territories. After the fall of the apartheid regime South Africa has

been one of the largest aid recipients. At the same time the country has been constantly increasing its aid levels, fulfilling its aspiration to assert itself as a regional leader and to bolster its international status.

Organizational model. For a long time the aid management system in South Africa was the least centralized among all large providers of South-South development cooperation. The country had no central agency, no overall government aid strategy, and no systematic database to track the country's development assistance. Instead, development assistance is managed by three government groupings—the African Renaissance Fund (ARF); government departments; and parastatals, government agencies, and other statutory bodies such as the Development Bank of Southern Africa (DBSA), the Industrial Development Corporation (IDC), and the SA Management Development Institute (SAMDI) etc. In 2011 South Africa announced the creation of the South African Development Partnership Agency which means that the process of decision-making and implementations of decisions in the sphere of international development assistance in South Africa will undergo a radical transformation.

Until recently, there has been no uniform policy and process that directed trilateral cooperation. Individual departments established trilateral partnerships with little overall coordination with the activities of other government departments and agencies. As such, the only verifiable sources of data on trilateral initiatives are from foreign donor partners. To support the formalization of trilateral partnerships, the National Treasury has recently appointed a dedicated trilateral assistance division that would establish the principles, criteria, and guidelines of such cooperation [Braude, Thandravan, and Sidiropoulos 2007, p.22].

Aid levels. South Africa does not report to the OECD-DAC, and due to the high decentralization of aid management systems there are few trustworthy sources of information on aid flows from the country. Although aid levels have been recently increasing, the national aid programs of South Africa have a much more modest scope than those of China, India, and Brazil.

Priority aid modalities. Like Brazil, South Africa prioritizes technical assistance. The distribution of aid disbursements between bilateral and multilateral channels is also similar: 75 percent of aid is delivered through multilateral, mainly regional institutions.

Moreover, South Africa has been extremely active in trilateral cooperation aimed at providing assistance to African countries. In most cases trilateral cooperation is initiated by established donors (the Netherlands, Switzerland, Sweden, Norway, and Belgium) that seek to minimize risks related to the strengthening of South Africa's positions in Africa, and to divide spheres of influence. Despite the fact that coordinating trilateral projects is always difficult, the donor partners acknowledge that South Africa has comparative advantages (location, culture, history, identity, acceptability) in Africa and shares the African Renaissance vision with other African nations.

As for cooperation with international organizations, the largest share of development finance is allocated to the African Renaissance Fund which was established as a new mechanism of trilateral development cooperation.

Geographical and sector priorities. Within Africa, the bulk of South African's development assistance is focused on the Southern African Development Community (SADC) member states. No particular priority recipients were identified, although a large overlap exists between development assistance and countries in which South Africa has been involved in providing support to democratization and stabilization efforts (such as the Democratic Republic of Congo, Sudan, and Burundi). South Africa prioritizes democracy promotion, good governance, conflict prevention and resolution, humanitarian assistance, and the strengthening of human potential.

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2.3 Increased activism of emerging donors: opportunities and risks

Established donors have a long history of providing aid. The DAC is thus accustomed to aid coming from a variety of sources. But it is not, however, accustomed to dealing with such large increases in inflows from countries that still have significant levels of poverty within their own borders, countries that are often also recipients of the DAC assistance. This trend raises questions about whether or not traditional donors should still channel significant amounts of aid to countries such as India, Brazil, and South Africa given that these countries propose an alternative model of international development cooperation. [Waltz and Ramachandran 2011, p.5].

The increased activism of emerging donors brings some new opportunities for other participants in international development cooperation – both established donors and aid recipients – and the international aid system as a whole.

For partner countries these opportunities are the following:

1) Proliferation of external sources of finance;
2) Attracting aid to those sectors that have not been prioritized recently by established donors (primarily, infrastructure and production);
3) Equal dialogue;
4) Absence of the need to comply with hard political and economic conditions usually imposed by traditional donors;
5) More rapid disbursement of funds due to a low or zero conditionality; and
6) Getting know-how and experience that can be adapted more easily to the local realities.

Because they contribute to increasing its effectiveness, the last two advantages are also relevant for traditional donors and international aid architecture as a whole. Moreover, the diversification of providers of assistance leads to an increased competition on the "aid market" and forces established donors to undertake more active efforts at defining their competitive advantages. This situation can have favorable consequences. Finally, the increased activism of emerging donors that adhere to different principles and prioritize different modalities of providing assistance can hypothetically help overcome a crisis in the field of international development cooperation which is reflected in the fact that traditional donors have not met their commitments made at High-Level Fora on Aid Effectiveness of 2003, 2005, and 2008, and that most developing countries are lagging behind the schedule of achieving MDGs by 2015.

However, the movement of emerging donors to the forefront also creates certain risks for partner countries, the club of established donors, and the international aid system as a whole.

For aid recipient countries these risks can be summarized as follows:

1) The increased fragmentation of aid flows can be especially costly for the countries with weak institutional potential, notably, in the sphere of public finance;
2) The absence of conditionality and the willingness of emerging donors to provide assistance to the governments that do not meet even minimal standards of good governance, particularly, those with abundant natural resources can lead to the perpetuation of corruption, human rights violations, and non-compliance with environmental standards.

Established donors and the international system as a whole face different risks. First, increased aid levels from such countries as Brazil, India and China that remain large recipients of the OECD-DAC aid causes established donors to question the rationale behind the allocation of such large funds. This may have grave political consequences, and exacerbate the relationships with "emerging giants".

Second, the indifference of emerging donors to the state of public financial management systems in partner countries can lead to unsustainable levels of debt and undermine recent global efforts to provide debt relief to highly indebted countries [Zimmermann and Smith 2011, p.731].

Third, most emerging donors that signed the Paris Declaration did not make pledges as donors and do not comply with its 5 principles when providing assistance. Most programs and projects designed by the largest emerging donors (China, India, Brazil, and South Africa) are not aligned with the national systems of partner countries. The prospects for coordination of efforts between established and emerging donors are bleak given the conceptual and organizational differences. Providers of SSDC cooperation simply do not have mandated representatives to participate in co-ordination meetings (in the case of Arab donors, for example, decision-making takes place at agency headquarters) [Zimmermann and Smith 2011, p.731]. Currently, there is very little reporting on project evaluation and impact assessments. This absence is one of the reasons that claims such as this are made: "Chinese Vice Minister of Commerce Fu Ziying said… that China has not found a single case of corruption in its aid projects to foreign countries during the past six decades" [Waltz and Ramachandran 2011, p.22]. The providers of SSDC are also unwilling to report their aid flows in a transparent manner because they fear the negative reaction of the poorest within their own borders and the cancellation of aid programs to them by established donors.

Fourth, the need to compete with other emerging donors which prioritize commercial interests and often provide tied aid can be a step back for the global aid system and undermine the aid doctrines of the last decades.

Some scholars call for a more nuanced discussion about these Western policy concerns. They find little concrete evidence that the arrival of major SSDC providers, particularly China, has undermined governance standards. Moreover, they question whether the DAC donors have themselves been successful in promoting better governance through their use of conditionality [Zimmermann and Smith 2011, p.731]. Non-interference also may be a convenient rationale for doing business in countries that are unappealing to Western

donors. But Southern donors are not bankrolling "rogue states;" it is worth noting that the largest beneficiaries of Southern assistance are also top recipients of aid from the DAC, with the exception of Burma [Waltz and Ramachandran 2011, p.17].

With respect to debt sustainability, SSDC providers have themselves made significant contributions to global debt relief. They also argue that the burden of new assumed debt must be weighed against the potential benefit of growth resulting from new loans. With the respect to de-commercialization of aid, it is necessary to take into account that the goods and services of SSDC providers can be highly competitive on international markets. Untying their development co-operation may not reduce prices significantly. Moreover, although the DAC donors have indeed strengthened the poverty reduction focus of aid, they have not yet been able to ensure that trade and investment relationships with partner countries pursue coherent, development-friendly objectives [Zimmermann and Smith 2011, p.731].

The major point of concern for international donors is how to minimize the aforementioned risks and ensure better harmonization of approaches. Achievement of this goal depends equally on the established donors (and their ability to engage in constructive dialogue with emerging donors and revise some of their approaches to aid delivery); and emerging donors that should see in cooperation opportunities as well, not only risks of losing their ability to define aid agendas autonomously.

Cooperation between traditional and non-traditional donors is carried out in three main forms:

1) *Policy dialogue*
   - Bretton-Woods institutions;
   - G8 and G20;
   - Bilateral mechanisms of cooperation between non-traditional donors and the OECD-DAC (China-DAC Study Group and annual meetings with the Coordination Group of Arab donors);
2) *Providing guidance and technical assistance to non-traditional donors including boosting their capacities in aid delivery, including statistical reporting* (Mexico, UAE, Brazil); and
3) *Trilateral cooperation mechanisms* with participation of both individual established donors and multilateral organizations (primarily, the UN and the World Bank).

A transition from policy dialogue between traditional and non-traditional donors to real cooperation remains work for the future. This was clearly demonstrated at the Fourth High-Level Forum on Aid Effectiveness in Busan that showed the width of the gap between Northern and Southern donors; most notably, with such countries as China and India. It is worth mentioning that the DAC members were not unanimous on dealing with "rising powers". For example, the Secretary of State for International Development A. Mitchell, who had just came back from Beijing, insisted that China did not have to make commitments as a donor, while the Secretary of State of United States Hillary Clinton demanded that all countries make commitments to increase aid transparency. However unexpectedly, the A. Mitchell's point of view prevailed. The Busan Declaration does not oblige China and other developing countries to make commitments outlined in the Outcome document,

and leaves open the questions on specific measures toward untying aid, increasing aid transparency, and alignment with partner countries' national systems. None of the major providers of South-South development cooperation have participated in the International Aid Transparency Initiative (IATI).

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It is still unclear what role the emerging donors will play in global aid architecture in the 21st century. It is quite unlikely that the Arab countries and providers of SSDC will merge with the DAC model, like the countries of the first group. In recent years Arab donors have become more active in collaborating with Western institutions and have partnered with the World Bank, the DAC members, the AfDB, and the EBRD, among others. Yet the Arab model remains very much a parallel structure. They have also established coordination mechanisms amongst themselves. They have not merged with the DAC for the past forty-fifty years, and there is little reason to believe they will in the future.

For China, India, Brazil and South Africa merging with the DAC model creates more serious risks than opportunities. They fear that membership in the DAC often means that countries can brand themselves as donors in the international community. Southern donors would likely lose a significant amount of soft power in developing countries if they are seen to be "selling out" to the West. In addition they would lose a fair amount of business and projects in the developing world if they fully ascribed to the DAC principles rather than their traditional allegiance to non-interference and other principles of the Non-Aligned Movement. This would require compromising principles from the Bandung Conference, the Non-Aligned Movement and the Five Principles Approach that most of these countries have held as a central tenant of their foreign aid strategies. Joining the DAC would also complicate domestic politics for many Southern countries which have high levels of poverty at home. It might constrain the flows of aid that they are able to receive from Western donors. It would also prove difficult to explain to domestic constituents why such big amounts are being sent abroad [Waltz and Ramachandran 2011, p.21].

Traditional and non-traditional donors will have to find a common language in which to discuss, compare and monitor their efforts. In light of the political sensitivities about ODA, the DAC and other providers might have a more fruitful conversation about a broader set of official finance flows for development. In 2011, the DAC has begun deepening its work on these "other official flows", which include export credits, investments and other non-concessional flows. These flows lie at the heart of many South-South relationships—and may provide new entry points for collaboration [Zimmermann and Smith 2011, p.736].

SELF-CHECK QUESTIONS

1. Please name three main subgrouping within the group of emerging donors.
2. What is the most difficult challenge in assessing the role of emerging donors in international development cooperation?
3. What share of gross global ODA do emerging donors currently account for?

4. Which countries are included in the subgrouping of emerging donors following the DAC model?
5. What is unique about the new EU members' model of participation in international development assistance with respect to goals and principles, organizational model, distribution by channel of aid delivery, region and sector?
6. How are the aid programs of Turkey and Israel different from those of the new EU members?
7. Please, describe the process of establishment and evolution of aid programs in Arab countries?
8. Which regional financial institutions were established by Arab donors?
9. Please, compare the Arab model of participation in international development assistance with the DAC model?
10. What are the main principles of South-South cooperation?
11. What is specific about the model of participation in international development cooperation practiced by providers of South-South cooperation in comparison with the model of established donors? With other emerging donors?
12. Please compare the aid programs of the BRICS with respect to organizational model, distribution by channel of aid delivery, region, and sector.
13. What are the main opportunities and risks created by the increased activism of emerging donors for partner countries/established donors/and the international aid system as a whole?
14. What risks do emerging donors see in harmonization of approaches with established donors?
15. Please, name the main mechanisms of cooperation between established and emerging donors.

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LECTURE №7

RUSSIA AS AN EMERGING DONOR

Lecture outline

I. SOVIET LEGACY
- **1.1. Soviet Union's participation in international development cooperation as a dynamic process**
- **1.2. Ideological basis and goals of economic cooperation with developing countries**
- **1.3. Legislation and organizational model**
- **1.4. Aid levels**
- **1.5. Forms of economic cooperation**
- **1.6. Geographical and sector priorities**

II. RUSSIA'S RE-EMERGENCE AS A DONOR
- **2.1. Causes of re-emergence**
- **2.2. Goals and principles of participation in international development assistance**
- **2.3. Legislation and organization model**
- **2.4. Aid levels**
- **2.5. Aid modalities**
- **2.6. Geographical and sector priorities**

The global system of international development assistance is undergoing a profound transformation. It is becoming more complex as new providers of assistance enter the scene. The group of emerging donors, including Russia, has been increasing the volumes of aid to developing countries. Emerging donors have undertaken significant efforts at establishing national systems of international development assistance. They are playing a leading role in enhancing cooperation between established and emerging donors in the framework of the so called "Moscow process" [Kudrin and Zoellick 2010]. Applying the term "emerging donor" to Russia seems to be incorrect given the fact that the Russian Federation is the legal successor of the Soviet Union. The Soviet Union was one of the largest partners of developing countries between the mid-1950s and the late 1980s. From both historical and political perspectives, it is more accurate to talk about Russia's re-emergence as a donor. This lecture bridges the gap between the past and the present. It examines the Soviet and the Russian strategies of engagement in international development cooperation with respect to goals, principles, organizational model, forms, geographical and sector priorities, and levels of aid.

I. SOVIET LEGACY

1.1. Soviet Union's participation in international development assistance as a dynamic process. The Soviet Union began to provide assistance to developing countries soon after Nikita Khrushchev came to power. It remained an active donor until the end of the Cold War when the USSR had to dramatically cut down its development aid to the Third World and become an aid recipient itself. Throughout the whole period, Soviet policies in the sphere of providing assistance (or economic cooperation, as it was called in the USSR) to developing countries was subordinated to the logic of the bipolar confrontation. Development assistance served as one of the most important instruments in the ideological and military-political struggle with the West, along with propaganda campaigns, arms supplies etc. [Kanet 2010, p.1].

The Soviet policies of economic cooperation underwent significant transformation under the influence of several factors. First, the general ideological considerations of the Soviet leadership about the nature of the global confrontation of two socio-political systems evolved substantially, as well as the role of Third World countries in this struggle, the nature of development itself, and its driving forces [See more about the evolution of the Soviet concepts of development: Arefieva and Bragina 1991]. Second, there were significant changes in the logic of the interaction between the superpowers (at a structural level) and the military-political dynamics in developing countries. Third, the state of the Soviet economy also changed. Although the last factor played a secondary role throughout most of the Cold War period, it started gaining in significance after the beginning of the 1980s against the background of deteriorating conditions in the Soviet economy.

The history of the participation of the Soviet Union in international development cooperation can be divided into several large periods that may be represented as a sort of curve: 1954-1964 (laying the foundations); 1964-1974 (expanding commitments); 1974-80 (heyday); 1981-85 (stagnation); and 1985-1991 (decline). The first three stages constitute a rather homogeneous period during which the Soviet system of providing assistance to the Third World evolved in line with the principles that had been outlined in the mid-1950s. In the 1980s these principles were revised. The system began to lose its unique features and erode. Thus, it is important to point out that in our deliberations on the specifics of the Soviet legacy we will refer to the period between 1954 and 1980. The last decade of Soviet donorship will be examined separately.

1.2. Ideological basis and goals of economic cooperation with developing countries. The foundations of the Soviet Union's participation in international development cooperation were laid during the rule of N.S. Khrushchev when the Soviet Union made a genuine breakthrough to the Third World. The most important reason behind this breakthrough was the establishment of a balance of power in Europe, and an acknowledgment of the lack of sufficient resources to achieve strategic superiority in the Cold War on the West. Preparing a transition from confrontation to peaceful coexistence, the Soviet leadership paid attention to those processes which unfolded on the periphery of the international system. The Soviet leadership drew the conclusion that an accelerating decolonization provided the Soviet Union with opportunities to challenge the global balance of power.

The very fact that former colonies were gaining independence was seen as detrimental to the West. It was unclear which path these countries would choose, and what their policies toward the USSR would look like. All this made Khrushchev initiate some ideological innovations into Soviet foreign policy doctrine.

The most important innovation was a rejection of the dogmatic two-camp theory that dominated under Stalin. The approach under Stalin regarded the leaders of national liberation movements as enemies who did not express a wish to join the international communist movement. It was replaced by the concept of a "zone of peace" that included both the socialist states and also non-aligned states which were not members of a Western-oriented military alliance[71] [Khazanov and Khamdi 1997].

Another ideological innovation was the introduction of the concept of the "non-capitalist path of development" which allowed for developing countries to transit to socialism bypassing capitalism. Economic assistance from the Soviet Union and the countries of the socialist camp was meant to play the key role in ensuring this transition.

At the same time, from the very beginning, Soviet leaders rejected the term "aid" which was used in the West and replaced it by the phrase "economic cooperation". They emphasized that aid was the conscience money of the former colonial powers to repay previous exploitation, and that a priori the Communist countries needed to make no such payments. Such an approach allowed the Soviet Union to be more pragmatic about selection of modalities and instruments of development assistance and reject all the attempts of the Western powers to engage it in cooperation.

Economic cooperation pursued various goals. The Soviet Union was seeking to weaken its major enemy – global imperialism – by destroying the dependency system that had been established in the colonial era, and which had re-emerged as neocolonialism. The Soviet leaders maintained that this system allowed the West to exploit the resources of the countries of the Periphery and to use them as export markets. By launching development cooperation with developing countries, the USSR sought to demonstrate to their political elites that they no longer needed to turn to their former colonial power in order to satisfy their development needs – all necessary resources could be received from the socialist camp.

Second, the Soviet Union sought to urge Third World countries to follow a non-capitalist path of development. By investing considerable resources into large industrial projects of national importance, Soviet leaders intended to create a base for the "peaceful transition" of developing countries to socialism and to assist them to reproduce the Soviet model of industrialization. Third, by providing economic assistance to developing countries, the USSR contributed to the establishment of a favorable global military-political balance of power. Thus, it was no coincidence that economic assistance complemented or paved the way for Soviet arms supplies. Fourth, the USSR countered the expansion of Chinese influence in the Third World (the split with China occurred in the mid-1950s and was deepening until the mid-1980s). Fifth, the Soviet leaders sought to support their own industry – most facilities in developing countries were built by Soviet personnel. Sixth, the Soviet Union ensured its access to strategic natural resources [Korepanov and Komagaeva 2012, p.11].

71 Khazanov A.M, Khamdi G. 1997. Politika SSSR v 'tret'yem mire' (Asia i Afrika) v gody 'kholodnoi voiny'. Moskva.

1.3. Legislation and organizational model. Economic cooperation was carried out in accordance with an overall foreign policy strategy of the CPSU. The key decisions in this field were made by the superior party leadership – often during the visits of Soviet leaders to developing countries or in welcoming the delegations from these countries to Moscow. Economic cooperation was coordinated by the State Committee for External Economic Affairs, a body created in 1957 expressly for this purpose. Several large government contractors – "Technoexport", "Tyazhpromexport", "Technopromexport", and "Prommashexport" – as well as line ministries implemented the development projects.

There was no system of legislation that regulated the activities of the governmental bodies in the sphere of international development cooperation. Neither the key terms nor the criteria for differentiating between concessional and non-concessional loans were defined or codified. All development assistance commitments made by the USSR were secured in bilateral agreements on scientific-technological and economic cooperation. Intergovernmental commissions were responsible for their implementation.

1.4. Aid levels. Providing accurate assessment of the levels of Soviet aid is quite difficult. The USSR never provided official statistics to the international organizations. This was justified by the fact that qualitative differences between the financial (sic) aid of the socialist countries and the flow of official development aid (ODA) from Western countries made it pointless to compare such aid in absolute terms. Soviet data is unreliable for the reason of the absence of differentiation between concessional and non-concessional loans, and a wish to report on committed funds, as opposed to disbursed funds. Finally, statistical reporting during the Cold War was another instrument of the global struggle. Both sides manipulated the numbers. The Soviet Union sought to prove that it was the largest donor and reported incredibly high figures that accounted for 1 percent of GNI. The OECD-DAC, on the other hand, consciously reported lower figures in order to demonstrate that the USSR was in fact very little committed to providing support to developing countries. If we rely on the calculations made by the distinguished scholars that took into account all the pitfalls and restrictions related to the measurement of the Soviet aid volumes, it can be said with confidence that the Soviet Union's average annual development aid disbursements accounted for 0.2 percent - 0.25 percent of its GNI. If the aid to Comecon members is excluded, this figure will drop down to 0.01 percent [Machowski and Shultz 1987, p.232-233].

The total estimated value of development assistance provided by the USSR between 1954 and 1991 is US$78 billion. Development aid volumes increased steadily throughout most of this period, and began to decline in the early 1980s.

1.5. Forms of economic cooperation. According to the list of types of assistance presented by Soviet representatives in response to a 1982 request from Group 77 in the UNCTAD, economic cooperation between the USSR and developing countries was carried out in the following forms: 1) concessional loans (with grant-element higher than 25 percent); 2) grants; 3) assignment of Soviet personnel to developing countries (they were paid at Soviet and not world rates); 4) Educating national cadres from developing countries

in the USSR; 5) Provision of technologies and know-how; 6) Price subsidies for goods exported to developing countries (fixed prices); and 7) preferential maritime transfer tariffs [Bach 1985, p.269]. Only half of these forms met the criteria of ODA established by the OECD-DAC: concessional loans, grants, and educating cadres in the USSR which made extremely difficult any comparison between Soviet and Western aid volumes.

Soviet economic cooperation differed from Western aid in many aspects. First, the grants to concessional loans ratio was 50:50 in the West and 95:5 in the USSR. Second, Soviet aid had about a 38 percent grant element compared with an average of about 90 percent for Western aid [Bach 1985, p.269]. It is important to point out that most intergovernmental loans was a form of financial support for the friendly regimes in the Third World and were provided without a serious analysis of the creditworthiness of the borrowers. No measures to protect economic interests in case of non-repayment of the loan (which were commonly used in international practice) were undertaken[72] .

Third, aid was virtually always given and repaid not in hard currency, but in goods – often produced at the facilities built by the Soviet specialists. Fourth, unlike in the West, tied aid prevailed over untied. Tying of aid was supposed to facilitate expansion of the international division of labor. Fifth, the interval between commitment and disbursement was longer than in the West. Six, almost all Soviet aid was provided directly to recipients through bilateral channels. The Soviet Union refused to make contributions to international organizations that provided development assistance (apart from the UN agencies and programs, such as UNDP, UNICEF, UNIDO) and did not allow developing countries to choose contractors. The Soviet Union sought to exclude the possibility that its monies would be used for purchasing goods and technologies from the West.

1.6. Geographical and sector priorities. The Soviet Union provided assistance to a significantly smaller number of countries than did Western donors. This was explained by the fact that there were fewer Soviet-oriented than West-oriented countries in the world. There was a clear hierarchy of recipients. The list was topped by the first priority group of developing countries which were members of Comecon – Cuba, Vietnam, Mongolia, and North Korea, which accounted for more than 75 percent of all aid flows. The second priority group consisted of socialist-oriented countries – primarily, those with pro-Marxist regimes (Mozambique, Angola, Ethiopia, Somalia (until 1976), and the Middle Eastern countries with "progressive regimes" (Egypt, Iraq, Syria). A third separate group included strategically located non-socialist countries (some of them were members of the Western military alliances) – India, Iran, Pakistan, and Turkey [Machowski and Shultz, 1987, p.234]. Regional distribution of Soviet aid (excluding Cuba, Vietnam, and Mongolia) looked as follows: Middle East (35 percent), South Asia (30 percent), North Africa (15 percent), Sub-Saharan Africa (13 percent), Latin America (6 percent), and East Asia (1 percent).

The choice of sector priorities for economic cooperation with developing countries was determined by the intent to help them progress on the "non-capitalist path of development". Economic cooperation focused for a long time on large construction projects of national importance intended to promote command methods of management which served as "showcases" for Soviet technological advancements. These projects were implemented in

72 Kheyfets B. 2004. "Effektivnost' realizatsii zarubezhnykh finansovykh aktivov." // Voprosy ekonomiki.: 9: 76-91. P.76.

various sectors of heavy industry – nonferrous and ferrous metallurgy (metallurgical plants located in India (Bhilai and Bokaro), Iran (Isfahan), Egypt (Kheluan), Algeria (El-Hadjar); a bauxite extracting complex in Kindia (Guinea); machinery; electric power (Aswan Hydro Electro Station in Egypt and Euphrates Hydro Complex in Syria); fossil fuels; and the raw materials industry. The USSR also supported infrastructure projects (highways in Yemen and Afghanistan; railways in Syria, Iraq, and Guinea; deep-water fluvial and sea ports in Yemen, Somalia, and Afghanistan). As of January 1991, the overall number of large projects implemented in developing countries reached 907, including 379 industrial facilities [Korepanov and Komagaeva, 2012, p.12].

Special attention was also paid to the education sector. Development assistance in this sphere had two dimensions: the education and training of students and specialists in the USSR (the Soviet Union covered all costs), and the assignment of the Soviet teachers and trainers to developing countries. Educational aid, especially, providing grants for studying in the USSR was regarded by the Soviet leadership as the primary instrument of influencing the hearts and minds of the young specialists that had to fall in love with the Soviet Union and to promote goodwill for it upon their return to their country of origin. The symbol of Soviet educational assistance was the Peoples' Friendship University which opened in Moscow in 1960. In the late 1980s the number of foreign students in the USSR totaled 126,500. This amounted to 10.8 percent of the total number of foreign students worldwide. In 1990 foreign students studied in 700 institutions located in 120 Soviet cities. Almost 80 percent of all foreign students studying in the USSR came from Asia, Africa, and Latin America. African students accounted for 24 percent of all foreign students in Soviet institutions of higher education in 1988[73] .

Economic cooperation with developing countries in the 1980s

In several aspects the last decade of Soviet donorship was radically different from the earlier periods. Soviet leaders began questioning the need for disbursing such immense resources against the background of an aggravation of the crisis in the Soviet economy. The results of Soviet investments did not live up to expectations as well. Those regimes in the developing world that had most closely adopted the Soviet-style politico-economic system, such as Ethiopia and South Yemen, were among the least developed and in need of the greatest amounts of economic and development assistance. The Soviets were increasingly unable to provide assistance because of their own economic malaise. Other developing countries that the Soviets usually categorized as "progressive" and were in geographical areas of strategic importance for Moscow were in fact strongly anti-communist. Moreover, these countries were at a higher level of industrial development and required imports of more sophisticated machinery and equipment of the type which was in short supply in the USSR itself [Kanet 2010, p.8].

Following a decision to pay primary attention to its own internal economic problems, the Soviets became less willing to enter economic relationships with developing countries that were not "mutually beneficial". By the 1980s three-quarters of Soviet trade balances were cleared in inconvertible currency. These trends that manifested themselves in the first

73 Gribanova V.V., Zherlitsyna N.A. "Podgotovka studentov iz afrikanskikh stran v VUZakh Rossii: problemy i perspektivy. Doklad". // Official Website of Institute for African Studies of the Russian Academy of Sciences. URL: http://www.inafran.ru/ru/content/view/77/51/

half of the 1980s became irreversible after Mikhail Gorbachev's ascension to power and his proclamation of a new foreign policy course aimed at cooperation with the West. A central element of "new thinking" concerned softening of the confrontation with the West in the Third World. This shift in policy had the result of freeing badly needed resources for internal Soviet purposes. The outcome was a gradual, but escalating Soviet disengagement from the Third World. By 1991 there had been a major reduction in overall Soviet involvement in the developing world unless that involvement was clearly and immediately beneficial to the economic interests of the USSR. By 1991, the USSR had renounced virtually all commitments to such states as Afghanistan, Cuba, Cambodia, Nicaragua, Angola, and Ethiopia. In Southeast Asia, in anticipation of the reduction of Soviet economic assistance, Vietnam, Laos, and Cambodia —all at that time communist allies of Moscow—were forced to initiate internal economic reforms and begin the search for alternative sources of economic assistance [Kanet 2010, p.12-13].

The last years of the Soviet Union were marked not only by the renunciation of commitments but also by a transformation into being an aid recipient. In 1990 the Soviet Union, along with other countries of Central and Eastern Europe, and states with transition economies were included in the Part II of the OECD-DAC List of aid recipients. Assistance to these states did not meet the criteria of ODA and was called "official aid".

II. RUSSIA'S RE-EMERGENCE AS A DONOR

Russia was one of the largest recipients of foreign aid throughout most of its contemporary history: between 1992 and 2004 it received on average US$1.5 billion annually[74]. However, even in the most difficult periods, Russia continued to provide aid to other countries. The Russian Federation took part in humanitarian operations, made regular contributions to international organizations, participated in debt relief on loans provided by the USSR (leading in terms of the share of debt relief in GNI) and was one of the leaders in the world in providing grants to foreign students. At the same time, Russia's participation in development assistance remained rather insignificant. The situation began to change in the mid-2000s. The levels of Russia's development assistance started growing from year to year, the forms of aid delivery diversified, and a new national system of development aid started taking shape. In 2005 the OECD, due to the difficulties of tracking the different flows, and the decline in aid to developing countries (caused by the fact that many of them became aid donors), the OECD decided to abolish Part II of the DAC list. Since then, assistance provided to Russia and the countries of Central and Eastern Europe which entered the European Union between 2004 and 2007, was no longer counted by OECD as "official aid". This does not mean that Russia ceased to receive aid, but it lost its official status of being an aid recipient country [Korepanov and Komagaeva 2012, p.14].

2.1. Causes of Russia's re-emergence as a donor. Russia's re-emergence as a donor was caused by several factors. First, a favorable macroeconomic situation was reflected in the constant growth of GNI which bolstered Russia's financial position. Since 2000 Russia has

74 UN Data. URL: http://data.un.org/Data.aspx?d=WDI&f=Indicator_Code%3ADT.ODA.ALLD.CD

run a federal budget surplus and a sustainable balance of payments. In 2005 – for the first time since 1994 – net private capital outflow was almost equal to net private capital inflow. This allowed Russia to substantially increase federal budget expenditures on providing external loans, and making contributions to international programs and funds established with the purpose of providing support to developing countries.

Second, the foreign policy strategy of the country underwent a significant transformation. After 2001 Russia focused on strengthening its position in the international arena by increasing its participation in various international organizations. Russia expressly chose the path of joining the WTO and obtaining OECD membership. The leadership of the country started positioning Russia as a "rising power" and a responsible stakeholder in the international system.

Russia's chairmanship of the G8 in 2006 provided an additional impetus to increasing efforts in the sphere of international development cooperation. On the one hand, Russia faced the need to make development commitments. On the other hand, the level of its engagement in international development cooperation remained very low and did not match its aspirations to become a full member of the G8 grouping. In terms of aid volumes Russia was lagging behind both its G8 peers and some other developing countries such as China, India, and South Korea. This mismatch had to be eliminated. Thus, it was no coincidence that the process began in 2005 of developing the "Concept of Russia's Participation in International Development Assistance" [Korepanov and Komagaeva 2012, p.15].

Third, by the mid-2000s the urgent need emerged to revive the policy on the post-Soviet space. The color revolutions of 2003-2005 in Georgia, Ukraine, and Kyrgyzstan impacted the national security interests of Russia. The establishment of a "belt of good neighbourliness" along the Russian national borders became a foreign policy priority. Provision of development assistance could play a key role in achieving this goal.

2.2. Goals and principles of participation in international development assistance. According to the Concept, the main goals of Russia's participation in international development assistance include:

- To influence global processes with a view to establishing a stable, fair and democratic world order based on universally acknowledged international law and partnership relations between countries;
- To eliminate poverty and ensure sustainable economic development in developing and post-conflict countries;
- To liquidate the consequences of humanitarian, natural, environmental, and industrial disasters and other emergencies;
- To foster democratic processes, the development of market-oriented economies, and the observance of human rights in recipient countries;
- To develop political, economic, educational, social, cultural, and academic relations with other countries and international associations;
- To create a belt of good neighborliness along Russia's national borders; to prevent the occurrence and facilitate the elimination of the focus points of tension and conflict, as well as sources of drug trafficking, international terrorism and crime, primarily in the regions neighboring the Russian Federation;

- To develop trade and economic cooperation between Russia and its partner countries;
- To encourage the integration of the recipient countries' national markets with Russian capital, commodity, services and labor markets;
- To strengthen the credibility of Russia and promote an unbiased attitude toward the Russian Federation in the international community.

The Concept also outlines key principles of Russia's participation in the delivery of international development assistance, except for the provision of food and humanitarian aid in the case of emergencies and natural disasters. Key principles are the following:

- Recipient countries must have national poverty reduction and sustainable economic development programs and strategies and implement them in compliance with the principle of donor/recipient shared responsibility within the framework of the global partnership to ensure sustainable development and poverty reduction;
- Recipient countries must demonstrate political trends or conduct reforms towards the development of civil society institutions in education, health, and social assistance to the poor, etc.;
- Recipient countries must pursue anticorruption programs;
- Decision-making on assistance provision and use must be transparent; and federal budget allocations for international development assistance must be stable and predictable;
- Russia will coordinate its development assistance activities with other bilateral and multilateral donors;
- Consideration should be given to the environmental and social implications of relevant projects and activities; and
- Recipient countries must demonstrate their interest in the consistent development of bilateral cooperation with Russia.

These principles have a lot in common with the principles outlined in the OECD-DAC documentation and the national strategies of individual DAC members. Especially important is the last principle. It informs us that the political leadership of Russia draws on the idea that "international development cooperation is not charity for the sake of charity, but a pragmatic method of securing national interests"[75].

2.3.Legislation and organizational model. Aid was long provided pursuant to the Government's decisions addressing specific tasks [Concept 2007]. Russia had been the only country in the G8 whose laws and government regulations did not even include the concept of official development assistance (ODA). "However growth of public expenditures on international development assistance, the diversification of aid modalities and the acknowledgement of the fact that the non-systemic use of federal budget funds for these purposes will not bring about expected economic and social results in the countries that receive Russian aid called for the adoption of a national programmatic document" [Basova, Borisenko et al. 2010, p. 9]. "The Concept of Russia's Participation in International Development Assistance" approved by President Putin on June 14, 2007 outlines goals,

75 Sodeystviye mezhdunarodnomu razvitiyu. Spravka. // Official Website of Rossotrudnichestvo. URL: http://www.rs-gov.ru/node/1236

principles, priorities, key stages for the establishment of a national system of international development assistance, addresses issues of planning, management, impact evaluation, and outlines the role of the private sector and of academia.

An important addendum to the Concept was the Action Plan for 2008-2010 approved by the Government in November 2007 which outlined practical measures aimed at establishment of the legal basis for Russian development assistance[76]. However, much of it was not done. For the time being, the Concept remains the only document devoted entirely to the issue of international development assistance. Most key terms used by established donors (including ODA) are still not codified in Russian legislation, others do not have fixed definitions. The term "ODA budget" and methodology of its composition are yet to be defined. Finally, some terms have different definitions from those which are codified in the OECD-DAC documents[77]. However, the fact that on October 31, 2011 the Russian Federation presented its first annual report on ODA to the OECD-DAC according to the methodology of this organization allows us to think that in the nearest future the aforementioned differences will be minimized.

The formulation and implementation of Russian policy in the sphere of international development assistance is carried out by the President, the Council of Federation and the State Duma, the Government, the Ministry of Foreign Affairs (MFA), the Ministry of Finance (MOF), the Ministry for Economic Development (MED), the Ministry for Civil Defense, Emergencies and Elimination of Consequences of Natural Disasters (EMERCOM), as well as other line ministries.

The President of the Russian Federation is responsible for overall leadership for Russian policy in international development assistance and approves Russia's strategic goals and objectives in this area. *The Federation Council and the State Duma* carry out legislative work to support Russia's participation in and delivery on its commitments, for international development assistance. *The Government of the Russian Federation* approves an Action Plan for Russia's participation in development assistance, makes decisions on aid provisions as proposed by federal authorities, and monitors the delivery of Russia's assistance.

The *MFA and the MOF* play a central role. They formulate policy and coordinate the actions of federal executive authorities in the area of development assistance. Together, they carry out the following functions:

- determine which are priority countries and regions, the political advisability of aid provision, as well as the amount, delivery channels, types and terms of such assistance;
- assess the efficiency of using federal budget funds for the purposes of international development assistance;
- jointly prepare annual reports on the outcomes of Russia's development assistance activities;

76 Interv'ju zamestitelya Ministra inostrannykh del Rossii A.V. Jakovenko IA "Interfax" po voprosam SMR. 22 dekabrya 2008. //of Deputy Minister of Foreign Affairs A.V. Yakovenko // Ministry of Foreign Affairs of the Russian Federation [Official website] 23.12.2008. URL: http://www.mid.ru/brp_4.nsf/0/48CAF78085355006C32575280031B914

77 Dedusenko A.S., Perfilyeva O.V., Shvets E.A. 2009. "Sravnitelno-pravovoy analiz osnovnykh terminov i poniatiy v sfere sodeystviya razvitiyu v rossiyskom i mezhdunarodnom zakonodatelstve." // Vestnik mezhdunarodnykh organizatsiy: obrazovaniye, nauka, pravovaya ekonomika 4.

- prepare factual and analytical data on the political, social, economic, and financial conditions in the recipient countries, as well as information on their trade and other relations with the Russian Federation; and
- provide information support to assistance operations and furnish relevant official data to foreign governments and international organizations.

Within the MFA development assistance is coordinated by territorial and functional units (such as the Department of International Organizations). The main coordinating unit within the MOF is the Department of International Financial Relations.

Based on the planned cap on spending for international development assistance, and with a view to support timely decision-making on Russia's activities in this area, the federal executive authorities concerned will present, within the defined timelines, their annual proposals on the required funding level to the Ministry of Finance, along with such proposals supplemented with requisite supporting documents and agreed with the Ministry of Foreign Affairs so that they could be included in the draft longer-term financial plan and next-year federal budget.

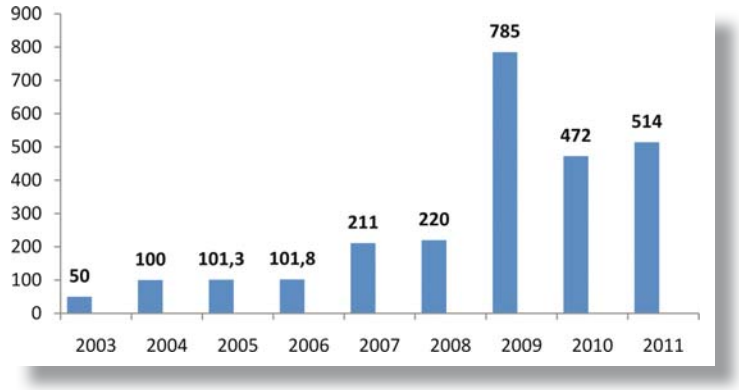
In October 2008 the *Federal Agency for the Commonwealth of Independent States, Compatriots Living Abroad and International Humanitarian Cooperation (Rossotrudnichestvo)* was established. The agency is responsible for requesting federal and agency earmarked programs, coordination and oversight over the decisions of multilateral and bilateral integration unions in the CIS in which the Russian Federation participates, as well as for elaboration and implementation (with the approval of MFA and other federal authorities) of aid programs to the CIS countries[78].

2.4. Aid levels. By 2007, when the Concept was approved, Russian ODA had quadrupled (from US$50 million in 2002-2003 to US$210 million). However, the aid levels remained insignificant compared to both established and emerging donors (if gas transfers to Ukraine and Belarus at subsidized prices are excluded). A qualitative change was needed to achieve the declared goals. The Concept outlined a near-term target – to increase the aid volumes up to US$400-500 million annually and for the long-term to steadily move towards the achievement of the UN recommended target: allocation of at least 0.7 percent of GNI for purposes of international development assistance [Concept 2007].

The near-term target has already been reached despite the global financial and economic crisis that broke out in the late 2008. In 2009 Russia's contribution to international development assistance amounted to US$785 million mainly due to transfer of funds from the EurAsEC Anti-Crisis Fund to low-income countries. However, in 2010 the Russia aid volumes dropped down to US$472 million which was still within the near-time target margin. In 2011 they increased by 8.8 percent and amounted to US$514 million.

78 Polozhenie o Federalnom Agentstve po delam Sodruzhestva Nezavisimykh Gosudarstv, sootechetsvennikov, prozhivaushchikh za rubezhom, i po mezdunarodnomu gumanitarnomu sotrudnichestvu, utverzhdennoe Ukazom Prezidenta Rossiskoj Federatsii ot 6 sentiabria 2008 g. №1315. URL: HTTP://BASE.CONSULTANT.RU/CONS/CGI/ONLINE.CGI?REQ=DOC;BASE=LAW;N=79833

Figure 7.1. Gross volumes of Russian ODA (excluding debt relief), US$ million



Source: The Russian Federation ODA, 2012.

Nonetheless, the ODA to GNI ratio in Russia is still very low. According to the MFA and MOF data, this ratio increased from 0.015 percent in 2004 to 0.065 percent in 2009 which is well below the established donors' levels [Rakhmangulov 2010, p.211]. To achieve the long-term target outlined in the Concept, Russia will need to increase its aid ten times. This will exert much greater pressure on the executive authorities. Therefore, the need to accelerate the process of institutionalization of the national aid system is becoming more and more urgent.

2.5. Aid modalities. Russia uses a wide range of different instruments for delivering aid: multilateral, bilateral, and trilateral.

Development assistance on a multilateral basis is provided by making voluntary and earmarked contributions to international financial and economic institutions, including the United Nations programs, funds, and specialized agencies (WHO, WFP, UN OCHA), Central Emergency Response Fund, regional economic commissions, and other organizations participating in development programs; by participating in global funds; and by implementing special international initiatives of the Group of Eight, World Bank, IMF, and UN agencies.

Assistance on a trilateral basis is provided using financial and logistic capacity of the "traditional" donor countries and international organizations. Such assistance is provided through the already existing or newly created trust funds of the World Bank, the United Nations, UN specialized agencies, and other institutions. However, Russia will have the right to select recipient countries and areas of assistance and will be able to use Russian technical assistance specialists.

Russia's main partner is the World Bank Group. The Russian aid program which is implemented in cooperation with the World Bank is the largest among all middle-income countries. Since IDA 12 replenishment Russia has constantly increased its contributions to international development assistance. Russia pledged US$108 million to IDA15, becoming the third largest nontraditional donor after South Korea and Brazil, and increased its contribution to IDA16 by 60 percent, reaching US$173.5 million (0.51 percent of the total replenishment).

The main dimension of cooperation with the WBG is Russia's contributions to various trust funds. Overall, IBRD/IDA administers on Russia's behalf 15 trust funds (7 individual and 8 multi-donor). The overall amount of Russian contributions to the IBRD trust funds over 5 years reached US$200 million [World Bank 2012, Annex 7, p.40]. The largest contribution of US$50 million was made to the Rapid Social Response Program Trust Fund [See Box 7.1].

Box 7.1. Russia's contribution to the Rapid Social Response Program

The Rapid Social Response Program Trust Fund was established by the World Bank in 2009 as a response to food, energy, and financial crises under the auspices of the World Bank's Global Food Crisis Response Program (GFRP). The core part of the Fund is a US$61.7 million multi-donor trust fund financed by the Russian Federation (US$50 million), Norway (US$8.5 million), and the United Kingdom (US$2.9 million).

The fund's goal is to safeguard lives and livelihoods during and after the global crises by promoting social protection measures such as social safety nets and maintenance of access to basic health, nutrition, education and other vital services for communities, especially poor and vulnerable groups. The fund finances the implementation of small-scale projects (from US$40,000 to US$3 million per project) in low-income countries eligible to get concessional loans from IDA. 50 percent of resources is directed to implementation of projects in Sub-Saharan Africa. 94.7 percent of RSR resources have been devoted to fund 70 technical assistance and small pilot projects in specific countries and regions, so they can build systems to protect those populations from future crises. The remaining 5.3 percent has funded 13 global activities for South-South learning; knowledge management; and the creation, documentation, and dissemination of diagnostic techniques or program practices with the object of delivering cross-country and cross-sector learning, primarily to benefit a broad range of low-income countries.

The main advantages of the Fund are flexibility and rapid disbursement of funds. The program is demand-driven and result-oriented. Four rounds of competitive selection were conducted over 22 months. 85 projects in all corners of the globe were approved. The interval between call for projects and approval does not exceed 2 months.

Russia allocates substantial amount of resources to Financial Intermediary Funds (FIFs), managed by the World Bank Group. The FIFs include Global Fund to Fight AIDS, Tuberculosis, and Malaria to which Russia contributed US$317 million.

The WBG has been involved in policy advice and capacity strengthening for Russia's development aid since the 2006 G8 Summit in St. Petersburg. The WBG assisted key Russian Government ministries in developing critical policies and functions for effective donor assistance, such as aid reporting and statistics, aid strategic communications, and training for development. The program was supported by an IDA/IBRD-managed DFID trust fund of US$0.8 million. The Government has requested a US$7 million RTA/fee-based service TA program to strengthen capacity for providing development assistance in education. The program is progressing well, and is currently in its third year of implementation. A similar RTA program recently started in ECA agriculture policy research (US$6 million) [World Bank, 2012, Annex 10, p.3/10]

Box 7.2. The EurAsEC Anti-Crisis Fund (ACF)

Established on 9 June 2009.
Mission: assist member countries in overcoming the consequences of global financial and economic crisis, ensure their long-run economic and financial stability, and foster economic integration between member countries of the Fund;
Members: Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan; Procedure of joining/withdrawal from ACF membership is defined by the ACF Treaty and the ACF Statute: any country or international organization may become a member on the basis of a decision of the Fund Council after: (a) joining the Treaty on the Establishment of the ACF and the Agreement on the Management of ACF Resources and (b) fulfilling obligations on the contribution to the Fund (minimum amount of the contribution is US$ 1 million); The founding members invited other CIS countries to join ACF;
Eurasian Development Bank (EDB) was selected to manage ACF resources;

Fund Products
- Financial Credits (FCs) are extended only to governments to support budget and balances of payments, and to increase resilience of their economies to crises. Stabilization anti-crisis programs should meet the objectives of the Fund and include measures to achieve macroeconomic stability, strengthen the budget stance and/or the balance of payments, improve business climate and foster financial and economic cooperation between Member States;
- Investment Loans (ILs) are extended primarily to support large investment projects that spur integration between member states, e.g. in the power and infrastructure sectors. The Fund's ILs may also support big national investment projects. ILs can be attracted either by governments or by companies implementing such projects;

Financial Credit to Belarus
4 June 2011 – ACF Council approved the FC to the Republic of Belarus in the amount of US$3 billion; 21 June 2011 – first tranche of this FC in the amount of US$800 million was disbursed; second tranche at the amount of US$440 million was disbursed on 30 December 2011;
Objectives: replenish international reserves, support balance of payments;
Terms:
- Four more tranches will be disbursed in 2012-2013, each in the amount of US$440 million;
- Maturity of 10 years, including a 3-year grace period;
- Floating interest rate based on Russia's cost of funding in the international markets, but not exceeding 4.9 percent; no additional fees or charges;
- Each tranche will be disbursed upon the implementation of a set of measures agreed upon under the Government's Stabilization Program

Financial Credit to Tajikistan
18 June 2010 the first ACF operation was approved – financial credit to Tajikistan in the amount of US$70 million, on 23 August 2010 the credit was disbursed in full to the Ministry of Finance of Tajikistan;
Objectives: maintain the level of budgetary financing of social sectors (education, health, social protection), enhance the quality of public finance management (effective use of resources and accountability);
Terms:
- Maturity of 20 years, including a 5-year grace period;
- Fixed interest rate of 1 percent per annum, no additional fees or charges;

Outcomes: The Financial Credit was fully used over 2010 - 2011. Interim Report prepared by the ACF Manager gave a positive assessment of the reform efforts of the Government; final assessment of the Credit's utilization is currently being prepared.

Another politically important multilateral channel of aid disbursement is EurAsEC Anti-Crisis Fund which was established on the initiative of the Russian Federation. Its funds are used to support the CIS countries that meet certain criteria established with the approval of the WBG and the IMF (See Box 7.1).

Bilateral assistance is provided in the following forms: earmarked financial grants, or goods and/services provided on a grant basis; loans defined by the OECD as "official development assistance"; technical assistance provided through knowledge and experience transfer to recipient countries with a view to developing national institutions in various sectors such as health, education, environmental protection, natural disaster prevention and control, and anti-terrorism activity; debt relief, inter alia, by using debt-for-development swap operations, provided the debtor undertakes to use the freed up resources for the purposes of national socioeconomic development; food and humanitarian aid in the case of emergency or natural disaster; facilitating the simplification and cost reduction and enhancing the security and efficiency of national and international money remittance systems; and tariff preferences and other privileges granted to developing countries to improve their access to the Russian market for their goods and services. The dominant form of bilateral assistance programs is providing technical assistance to the foreign countries – the training of working professionals, ensuring that the citizens of recipient countries receive a decent education, and boosting their research capacities. According to commitments made at Gleneagles, Russia has cancelled US$11.3 billion worth of debts owed by African countries, including US$2.2 billion of debt relief through the HIPC Initiative. Beyond this Russia has taken the decision to cancel US$552 million in debt under the "Debt for Development Swap Program" to the following countries: Madagascar, Mozambique, Ethiopia, Tanzania, Benin and Guyana. In 2011 Russia canceled debt for Zambia, Burundi and Tanzania in a total amount of US$36.2 million.

It is worth mentioning that in comparison with established donors Russia disburses aid between multilateral and bilateral channels in a completely different way. The ratio of multilateral to bilateral aid is 30:70 in the Western countries, and 80:20 in Russia (according to MOF data for 2007-2008). This ratio changed only in 2009 due to the provision of loans by the EurAsEC Anti-Crisis Fund and amounted to 60:40 [UNDP 2010, p.120]. In 2011 the composition of it remained the same [The Russian Federation ODA, 2012, p.2]. The composition of Russian aid is explained by the strategic vision of the Russian leadership outlined in the 2007 Concept. It states, inter alia, that in the beginning, before the necessary legal basis is established and the mechanism of bilateral aid delivery are created, priority will be given to multilateral assistance. Once these pre-conditions are met, the focus will shift to bilateral assistance.

2.6. Geographical and sector priorities. According to the 2007 Concept, Russia will structure its international development assistance in line with the following regional priorities:

- To observe Russia's national interests in the process of multidimensional cooperation with the CIS countries, with the focus on the members of the Agreement on the Integrated Economic Space (IES) and the Eurasian Economic Community (EAEC); and to strengthen integration processes within the CIS;

- To intensify efforts with a view to participation in Asia-Pacific integration structures and to develop partnership relations with the leading Asian countries in all spheres, including joint assistance to the poorest nations;
- To meet Africa's special needs, including assistance to Sub-Saharan countries in poverty reduction and achievement of the Millennium Development Goals;
- To strengthen relations with Middle East and North Africa countries;
- To develop cooperation with Latin America.

Thus, Russian authorities seek to emphasize the global scope of Russian interests in the sphere of international development assistance and outline its main strategic priority – the strengthening of neighboring countries. The regional focus of Russian aid became even more evident after the establishment of Rossotrudnichestvo and the EurAsEC Anti-Crisis Fund, and making contributions to trust funds managed by the World Bank Group aimed at providing support to programs in the Europe and Central Asia Region, including the establishment of the Eurasian Center for Food Security (ECFS), and a contribution of US$23 million to Multi-Donor Programmatic Trust Fund for Europe and Central Asia Region Capacity Development established in April 2012.

According to the last official report published in May of 2012, the regional distribution was as follows: ECA, 28 percent; Sub-Saharan Africa, 28 percent; Latin America and the Caribbean, 20 percent; South Asia, 12 percent; East Asia and Asia Pacific, 9 percent; and the Middle East and North Africa, 3 percent.

The priority sectors are those that were declared as such at the time of Russia's chairmanship of the G8 in 2006: health, education, energy, and food security. Moreover, much attention is paid to supporting activities aimed at the speedy resolution of military conflicts, post-conflict peacebuilding, inter alia, through Russia's increased participation in international peace support operations and in the context of Russia's activities in the UN Peacebuilding Commission.

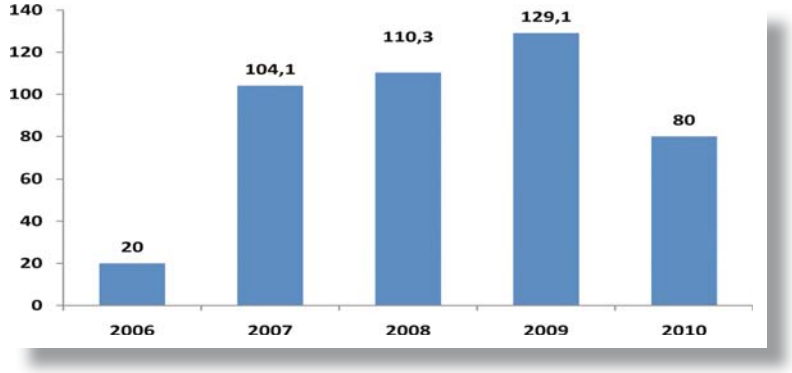
Such concentration of efforts on several priority sectors reflects Russia's intention to learn from experiences of other countries and take into account the OECD recommendations that, according to S.A. Storchak, encouraged Russia to provide comprehensive support to the recipient countries in two or three sectors instead of dispersing its aid among small-scale projects[79]. Russia has chosen those spheres where it has obvious competitive advantages.

Aid to the health sector was the top priority of Russian aid in terms of gross volumes (up to 50 percent of the total) for a long time, but its share began to decline in recent years.

In contributing to the Muskoka initiative Russia will work through bilateral and multilateral (GFATM, WHO, GPEI, World Bank, UNAIDS, UNICEF) channels focusing efforts on evidence-based measures that address major causes of maternal and child mortality, such as HIV/AIDS, malaria, polio and other infections, low immunization coverage of children, poor sanitation and low quality of pediatric care.. Russia is committed to allocate an additional US$75 million in 2011-2015 to the Muskoka Initiative on Maternal, Newborn and Child Health.

79 "Nauka pomogat'". S.A. Storchak's Interview to Vremia Novostey. April 4, 2007 // Official Website of the Ministry of Foreign Affaires of Russian Federation. URL: http://www.minfin.ru/ru/press/interview/index.php?id4=48

Figure 7.2. Russia's Total ODA Allocated to Health (US$ million)



Source: Deauville Accountability Report, p. 2.

Contributions to GFATM. Russia has been a constant supporter of the GFATM since it was established. The Russian Federation considers GFATM to be an important mechanism to boost progress on the health-related MDGs.

In 2006 the Russian government endorsed a decision to become a pure donor to the GFATM by disbursing of US$217 million which had been allocated for projects in the Russian Federation. The last tranche under this initiative was transferred in the end of 2010. Moreover, in 2010 Russia pledged US$60 million for the Third Replenishment period (FY 2011-2013). This brings Russia's total commitment to the Global Fund to US$316.99 million since 2001 [Deauville Accountability Report 2012 p.3].

Other contributions to fighting transmittable diseases. Recognizing the fact that malaria is a major contributor to the mortality of mothers and children in Africa, the Russian Federation provides financial contributions to the WHO global malaria program and co-finances IDA operations against malaria in Zambia and Mozambique. This includes a US$15 million contribution in 2008-2010 to provide financial and technical support to strengthen malaria control activities under the World Bank Malaria Booster Program in Zambia and Mozambique [See Box 7.3] and US$4 million to the WHO Global Malaria Program to support malaria interventions in partner countries in Africa and Middle East regions through a wide range of international training courses as well as capacity building activities. Russia's contribution is aligned with the national plans of partner countries to struggle against malaria and is coordinated with the activities of other countries.

Box 7.3. Booster Program for Malaria Control – Zambia country program

The support from the Russian trust fund has contributed to a major impact on malaria control in Zambia through the procurement of approximately 300,000 long-lasting insecticide treated nets (LLINs), the scale-up of the insecticide residual spraying campaign (program covers 1.5 million households), expansion of community driven malaria control projects, and the strengthening of monitoring and evaluation.

Results achieved: In recent years, Zambia has made impressive inroads in reducing malaria's toll. This decline coincides with the roll out of IDA and Russian trust fund supported interventions which supported the Government of Zambia's National Malaria Strategic Plan (2006 – 2011). With support from IDA and the Russian Federation Trust Fund, tremendous progress has been made toward achieving the goals of the National Malaria Strategic Plan:

- Overall malaria deaths fell by 47 percent since 2006
- 50 percent of children under five are now sleeping under bed nets (24 percent in 2006); 70 percent of pregnant women are receiving intermittent preventive treatment for malaria as part of routine antenatal care (as compared with 59 percent baseline in 2006).
- Malaria cases and related deaths in children under age five declined 29 and 33 percent from 2006 to 2010, respectively, while the percentage of children with severe anemia declined 68 percent from 13.3 to 4.3 percent (most moderate and severe anemia in children are caused by malaria) over the same period.
- 66 percent plunge in malaria deaths since 2000 has resulted in Zambia reaching the 2010 Roll Back Malaria target of a 50 percent drop in malaria mortality.

Source: World Bank 2012, Annex 10, p.5

Aid to education.

Established in October 2008, the *Russia Education Aid for Development (READ) program* is a collaboration of the Government of the Russian Federation and the World Bank that focuses on enhancing Russia's role as new donor in the sphere of education. The READ Trust Fund (Russian government approved a contribution to the individual READ Trust-Fund executed by the World Bank which is a part of this program with an amount of US$32 million to be executed over a now six-year period, 2008 to 2014. READ's main purpose is to help low-income countries to improve their student learning outcomes through the design, implementation, and use of robust systems for student assessment. READ supports analytical work and technical assistance to help countries: (a) establish systems or institutions, or strengthen existing ones, that formulate learning goals and carry out assessments of student learning; (b) improve existing or develop new instruments to measure student learning outcomes; and (c) strengthen existing or develop new mechanisms (policies) to use learning outcomes data to improve teaching and learning. Seven countries were selected for participation in the program (four from Africa – Angola, Ethiopia, Mozambique, Zambia, two from Central Asia – Kyrgyzstan and Tajikistan, and one from South-East Asia – Vietnam)[80].

Support for "Education for All Initiative". In Russia provided US$10.2 million to program "Education for All Initiative" for 2006-2013. These monies were directed to financing the Catalytic trust fund for the program. Russia provided an additional US$5.2 million to the Fund of Education Program Development Fund (EPDF) for 2006-2010 (disbursed in full). Both funds are administered by the World Bank [World Bank, 2012, Annex 10, p.11].

Providing grants to the foreign students. Following from the Government of the Russian Federation's decision of 2008, the number of the foreign students and compatriots living abroad admitted to the federal educational institutions of higher and professional education from the public funds must not exceed 10,000. The number of stipends has been constantly growing and approaching this target. In 2011 it amounted to 9,817 people, including 4,997 students from the CIS countries. Currently, Russia admits foreign students from 162 countries. However, since there are some students from developed countries, not all of the funds provided for these purposes meet the ODA criteria.

80 Russian Education Aid for Development Trust Fund (READ), Annual Report, 2010.

Food security has been becoming one of the most important sector priorities of Russian participation in international development assistance. As in other spheres, priority is given to cooperation with international organizations (FAO, WFP, UN), and international forums - G8, G20 and L'Aquila Food Security Initiative. The volume of bilateral aid remains insignificant (See Table 7.1)

Russia reaffirms its support for global food security under the AFSI frame and justifies its pledge to allocate up to US$330 million in the period between 2009 and 2011. As of today the level of Russian disbursements is around 86 percent. Russian support is provided mostly through earmarked trust funds and programs within WFP (around US$30 million), the World Bank and the International Civil Defense Organization (ICDO).

Table 7.1. Russian Contributions to the Global Food Security - Disbursements (US$ million, 2011, 1st quarter)

	2009	2010	2011	Total
Multilateral channel	69.9	62.1	20.0	152.0
Bilateral channel, including	6.9	36.1	3.0	46.1
Agriculture. Agro-Industries. Forestry. Fishing	0.0	0.7	0.0	0.7
Nutrition	0.0	2.0	3.0	5.0
Development food aid/ food security assistance	6.9	33.4	0.0	40.3
Grand Total	**76.8**	**98.2**	**23.0**	**198.1**

Source: Deauville Accountability Report, p.8.

In execution of the Russia Agricultural Development Aid Cooperation (ADAC) Initiative, the Russian Federation has committed to allocate US$28.5 million to provide: (i) a US$15 million contribution to the Consultative Group on International Agricultural Research (CGIAR) MDTF; (ii) direct financing of US$6 million from the Russian federal budget to the Moscow State University to establish a new Eurasian Center for Food Security (ECFS) for ECA countries; and (iii) RTA of US$7.5 million to be provided by the IBRD in support of the ECFS establishment (Contribution Agreement on CGIAR MDTF countersigned by the MOF on June 28, 2011; US$4.5 million has been paid; RTA Agreement for US$6.48 million signed on June 17, 2011 and is under implementation) [World Bank 2012, Annex 10, p.8].

Russia Food Price Crisis Rapid Response Trust Fund for Tajikistan and the Kyrgyz Republic (US$15 million) was established under the World Bank Global Food Crisis Response Program (GFRP) with the main purpose of reducing the negative impact of high and more volatile food prices on the lives of the poor; to support the governments of Tajikistan and the Kyrgyz Republics in the design of sustainable policies that mitigate the adverse impacts of high and more volatile food prices on poverty while decreasing the likelihood of long-term market distortions; and to support broad-based growth in productivity and market participation in agriculture to ensure an accelerated and sustainable food supply response in the Eurasia region. The ongoing Tajikistan Emergency Food Security and Seeds Imports Project benefited about 94,000 households in increasing domestic food production and reducing livestock losses – exceeding the original target of 55,000 households initially

planned to be covered by the project. Potato seeds and fertilizer were distributed to over 4,000 households in the remote mountainous areas, and 64 community production groups have been established [Deauville Accountability Report 2011, p.10].

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As the legal successor of the Soviet Union, Russia has a more than 50-year long history of providing assistance to developing countries. Therefore, Russia's increased activism in the sphere of international development assistance that started in the mid-2000s can be seen as Russia's reemergence as a donor. Regardless of all of the differences in ideology, decision-making mechanisms, structure of the economy, and geographical priorities (the CIS countries that had been a part of the USSR in the past being the top priority), it seems absolutely reasonable to build the new national aid system, while looking back on the Soviet legacy. The USSR contributed significant resources to the eradication of underdevelopment in Third World countries. Soviet specialists built almost 1,000 different facilities in Asian, African and Latin American countries, hundreds of thousand of young cadres from these regions received training at institutions of higher and professional education that were established with the financial support from the Soviet Union, as well as during the construction and operation of the plants, factories, and other facilities. Many of those trained hold leading positions in their home countries now and represent human capital that contemporary Russia can exploit to promote its interests in the sphere of international development assistance. Moreover, the analysis of the Soviet experience can help Russia to build a more effective aid system, and understand the risks of ignoring impact evaluation of aid and statistical reporting in accordance with the OECD-DAC criteria. Although the Soviet Union's unwillingness to comply with the DAC standards was understandable given the qualitative differences between "economic cooperation" and the ODA provided by the Western donors, it allowed the DAC members to manipulate the numbers and underreport real volumes of the Soviet aid which irritated developing countries. Therefore, Russia must do its best to eliminate terminological differences, modify legislation, and ensure provision of annual reports on its ODA flows to the OECD-DAC. However, it should be noted that progress in this direction will depend on the strategic decisions of the Russian leadership that may either continue to follow the DAC model or make its aid program more similar to the aid programs of its partners in the BRICS grouping.

SELF-CHECK QUESTIONS

1. When and why did the Soviet Union start providing assistance to developing countries?
2. On which ideological principles were based the Soviet policies in the sphere of international development cooperation? Why did the Soviet Union refuse to use the term "development aid"?
3. Which goals did the Soviet Union pursue when fostering economic cooperation with Third World countries?
4. What were the qualitative differences between Soviet "economic cooperation" and the

assistance provided by Western donors?
5. Which regions and sectors were given priority? Why?
6. Which factors determined Russia's re-emergence as a donor?
7. What is specific about the normative basis of the Russia's participation in international development assistance?
8. Which federal authorities are responsible for meeting development commitments in the Russian Federation? How is responsibility divided between them?
9. What are the main goals and principles of Russia's participation in international development assistance?
10. Which aid modalities does Russia use?
11. Which regions and sectors are given priority?
12. Which near-term and long-term targets are set by the Concept of 2007?

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PART III

AID MANAGEMENT

The first decade of the 21st century brought the issues of aid effectiveness to the forefront of the international development assistance agenda. The orientation of development actors toward addressing these issues was reflected in five principles of the 2005 Paris Declaration: ownership, alignment, harmonization, mutual accountability, and managing for results. Most donors made specific commitments with respect to implementation of these principles which forced them to pay more attention to aid management. This part of the set of lectures is devoted to the practical aspects of providing development assistance.

This section explores a wide range of issues: specifics of aid management systems, planning expenditures for bilateral and multilateral aid programs; advantages and shortcomings of various aid modalities and channels of aid delivery, as well as the project-based and program-based approaches. It compares different methods of monitoring and impact evaluation. A separate lecture raises the question about extending assistance to fragile states which is especially difficult given the variety of both dimensions of fragility and the actors engaged in the process. Fragile states require truly innovative approaches which take into account the specific features of this group of recipients.

LECTURE №8

ORGANIZATIONAL ASPECTS OF INTERNATIONAL DEVELOPMENT ASSISTANCE**

Lecture outline

1. **Legislative basis for aid management systems**
2. **Organizational structures**
3. **Planning**
4. **Programs of optimization of aid management systems**

This lecture examine such aspects of aid management systems as their legislative basis and organizational structures, strategic planning, forms and methods of aid management, division of labor and in-country donor coordination; centralized and decentralized models, as well as results-based management mechanisms.

1. Legislative basis for aid management systems

Legislation forms the basis of aid management systems in donor countries. It establishes the responsibilities of government entities involved in development co-operation, and makes them accountable. Legislation is an effective framework for establishing priorities and objectives for assistance, and can also protect the aid program from competing interests that work against development objectives. At the same time, exhaustive legislation on development assistance can hinder efficiency, especially if the laws are not updated regularly. Moreover, legal safeguards can unintentionally pose problems and constrain moves towards harmonization, alignment and accountability [OECD 2009a, p.16].

Legislation for development co-operation programs in DAC member countries largely reflects their legal traditions. Just over half of the DAC member countries have passed legislation which establishes the priorities and main objectives of their aid. But countries without legislation, for example Australia, Ireland, Norway, and Sweden, may have more flexibility in adapting rapidly to evolving development cooperation issues [OECD 2009a, p.17].

2. Organizational structures

International development cooperation is a multidimensional process. Systems for management of this process have a very complex structure in any donor country. There are dozens of state and non-state actors representing various spheres of social life. Since international development assistance had originally been close to foreign policy and

** **Editor's note:** Lecture 8 is constructed to convey the technicalities of the legal authorizations for international development assistance and its major organizational structures as well as the evaluation approach of managing for development results. Therefore, in the absence of a book of readings to accompany this set of lectures, the author was asked to convey the careful explanations of the OECD, especially the 2009 and 2011 contributions on managing aid and on multilateral aid.

Box 8.1. Legislative basis of aid management systems in the DAC member countries

United States. The aid is managed in accordance with Foreign Assistance Act of 1961 that distinguished military and non-military aid, codified the establishment of the USAID and forbid providing aid to governments that violate human rights, with an exclusion for the cases where aid will benefit people in need. For half of the century FAA of 1961 was amended countless times (17 additional packages of legislation since 1989 were introduced). Today it outlines 140 aid priorities and contains 400 directives on how to achieve these goals. The U.S. Congress has long been discussing the adoption of new legislation but different stakeholders have been unable to reconcile their interests.

Canada. In 2008 the Canadian government adopted the Official Development Assistance Accountability Act which lays out the conditions that must be satisfied for international assistance to be considered as ODA and sets new standards of accountability. These conditions are that assistance: contributes to poverty reduction; takes into account the perspectives of the poor; and, is consistent with international human rights standards. The Act identifies three groups (governments, international agencies and Canadian civil society organizations) that must be consulted at least once every two years.

United Kingdom. The International Development Assistance Act of 2002 establishes strategic goals for financing aid programs, key concepts, the responsibilities of the Secretary of State for International Development and other authorities, and mechanisms for cooperation with international financial institutions. The Act establishes poverty reduction as the over-arching purpose of British development assistance, either by furthering sustainable development or promoting the welfare of people. The government may tie aid by the commitment to hire British companies as contractors. The Act does not contain a definition of poverty that allows for a broader interpretation of this term to include the root causes of poverty, such as conflict, underdevelopment and corruption. The Act allows the allocation funds for development research.

The International Development (Reporting and Transparency) Act 2006 sets out the standards for reporting progress toward the Millennium Development Goals. The annual report includes data on nominal volumes of aid financing with breakdown by region, country, sector and international organizations. The data reported must reflect: progress toward achieving the 0.7 percent of GNI target, assessments of aid effectiveness and policy coherence and transparency of aid management. The Report is provided to the Parliament for further expenditures monitoring by a national auditing organ.

external economic relations, such agencies as Ministries of Foreign Affairs and Ministries of Finance often have a substantial influence over the decision-making process. However, the distribution of roles between actors varies depending on the mechanisms for organization of the political process, participation of civil society and the private sector, and many other factors, including the structure of interests and the scope of material and human resources in a given country.

Although an organizational model of aid management in every country is unique, the donor community has made regular attempts at defining some "ideal types" of such models.

The OECD-DAC identifies four main organizational models the selection of which is determined by the political and economic priorities of a donor country, and its material and human resources [OECD 2009a, p.32-34].

Model 1: "Ministry of Foreign Affairs". The ministry of foreign affairs takes the lead and is responsible for policy and implementation. The classical example of this model is Denmark, Danish foreign assistance is managed by the South Group in the Ministry of Foreign

Affairs. In Norway, development policy and foreign policy are now fully integrated within the Ministry of Foreign Affairs (MFA). NORAD has been made a technical directorate responsible to the MFA.

Model 2:"Development Co-operation Directorate within the MFA". In this model there is a "Development Co-operation Directorate within the MFA" which has the lead role within the ministry of foreign affairs and is responsible for policy and implementation, and coordination of bilateral and multilateral aid, but it is linked to the activities of the ministry itself which coordinates and defines priorities. This model is characteristic for Greece, Finland, Italy, the Netherlands, Ireland, New Zealand, and Switzerland. Dutch foreign assistance is managed by the Directorate-General for International Co-operation in the Ministry of Foreign Affairs. In Finland, Norway, and Luxembourg, for example, ministers for development co-operation have responsibilities that also include foreign trade, and environmental defense. In addition, other ministers may be responsible for certain aspects of development co-operation. For example, ministers of economy or finance may be responsible for contributions to the World Bank and the International Monetary Fund [OECD 2009a, p.34].

Model 3: "MFA-Agencies". Within this model a ministry has overall responsibility for policy and a separate executing agency responsible for implementation. Political dialogue is not unilateral because the agencies influence (through feedback) all policies of the donor country and certain decisions. This organizational model is characteristic for Austria, Belgium, Germany, Spain, Luxembourg, Portugal, United States, France, Sweden, Japan, Germany and France. For example, in Germany: The Ministry of Economic Co-operation and Development (BMZ) has overall responsibility for Germany's development cooperation. It is separate from the Federal Foreign Office and reports to Parliament through a cabinet minister, the Federal Minister for Economic Co-operation and Development. Development policy is implemented through different agencies including: the KfW Development Bank and its subsidiary, the German Investment and Development Corporation for financial co-operation; the Deutsche Gesellschaft für Technische Zusammenarbeit/German technical co-operation (GTZ) commissioned to implement German technical co-operation programs, Internationale Weiterbildung und Entwicklunggemeinnutzige (GmbH)/Capacity Building International (InWEnt) for human resource development and training; and the German Development Service for volunteer development workers. Among other things, the Federal Foreign Office is in charge of humanitarian assistance.

Model 4: "Separate ministry or agency". In this model, a separate ministry or agency which is not the Ministry of Foreign Affairs is responsible for both policy and implementation. The examples are Australia, Canada, and the United Kingdom. In these countries the agencies possess a great degree of operational autonomy and regularly report to the parliament. For example, in the UK the central body responsible for formulation and implementation of aid policy is the Department for International Development headed by the State Secretary. In Canada the main government body responsible for organization of aid programs is the Canadian International Development Agency (CIDA). However, there are some other actors that are actively involved in the management process: the Ministry of Finance, the Department of Foreign Affairs and International Trade, the International Development

Research Center, the Ministry for Citizenship and Immigration, the Ministry of Defense, the Ministry of Health, the Ministry for Environmental Protection, the Ministry of Labour, and the Ministry of Industry.

The OECD-DAC typology is, obviously, very simplistic. In reality, the structure of national aid systems in every single country is much more complex than any of these "ideal types". Whatever ministry/agency assumes the main responsibility for making decisions in the sphere of international development assistance, there are many other actors involved in their implementation. Those include parliaments that play a leading role in approving aid budgets and exerting control over the disbursement of funds, line ministries that coordinate provision of aid in specific sectors, and national NGOs in donor countries that represent an important channel for delivery of development finance to the people in need.

Organizational basis of cooperation with multilateral organizations

The OECD-DAC experts identify two main models of aid management through multilateral institutions: the centralized and the decentralized.

Within a *centralized* approach to aid allocation, a single ministry, a single department or an agency manages contributions to almost 30 multilateral bodies ranging from international financial institutions to global theme-based funds and UN agencies. This approach is adopted by nine OECD-DAC members. In Nordic member countries and in New Zealand, the body with the decision-making power tends to be the ministry of foreign affairs, while in the UK and Australia it is the international development agency.

Within a *decentralized* model there are at least two separate ministries, departments or agencies responsible contributions to multilateral contributions. This model is adopted by 14 DAC members. In eight countries the decision-makers are the finance and foreign affairs branches of government, while in the other six members they are the development department/agency and up to three or more other ministries, departments or agencies take the lead on specific allocations (the EU aid allocation model is closer to the decentralized model). More often, the Ministry of Finance cooperates with multilateral development banks, whereas the Ministry of Foreign Affairs and a development agency deal with other multilateral donors, such as the UN, the European Commission, global funds, and non-governmental organizations. Co-ordination among lead ministries and agencies ranges from formal inter-ministerial bodies that meet regularly to ad hoc consultations between civil servants working on similar themes [OECD, 2011, Report on Multilateral Aid, p.16] (See Box 8.2).

Foreign ministries of the DAC members are responsible for the budget lines for most multilateral organizations and funds. Within governments, however, there are many examples of dispersed decision-making which makes co-ordination more complicated. Interestingly, when it comes to earmarking funds channeled through multilaterals, the responsibility for allocation may lie with an entirely different ministry than the one responsible for core (un-earmarked) contributions to that organization or fund. In Sweden, for example, all multi-bilateral or non-core multilateral aid is determined by the development agency (Sida), while in other member countries this type of earmarked funding is usually the responsibility of line ministries dealing with similar sector investments. Such a spread of

responsibility for funding can lead to situations where there is no oversight of the different types of allocations different government bodies may be making to the same (or similar) organizations and entities. It is, therefore, important for cross-government discussions to take place in a single manageable body at the sub-ministerial level to regularly review all contributions to multilateral agencies [OECD 2011, p.18].

Box 8.2. EU: special case

The EU itself is a member of the DAC, as are 15 of its member states. The EU is an individual donor in its own right with its own development policy and resources. It funds its aid from three main sources. The EU finances its budget wholly from its own resources in accordance with the Treaty on the Functioning of the European Union – unlike some multilaterals that are fully reliant on contributions by their members. The European Commission proposes and the European Parliament and Council then decide on the Multi-Annual Financial Framework. In a similar exercise to that of bilateral donors, the annual EU budget process determines how much funding from the EU's own resources will be granted to development.

The EDF is financed through extra-budgetary contributions from EU member states. In this way, the EU acts much like a multilateral agency, with member states periodically negotiating replenishments. Development co-operation activities are jointly programmed by the European Commission departments and the European External Action Service. Implementation of EDF activities is the responsibility of the European Commission as an institution. The European Investment Bank (EIB), whose shareholders are the 27 EU member states, is active in about 150 countries outside the EU, where it provides long-term finance in support of EU external co-operation and development objectives. In the regions covered by the so-called "external mandate" of the European Parliament and the European Council, the EIB provides finance primarily under an EU budgetary guarantee covering risks of a sovereign or political nature, although it also does so at its own risk. The EIB finances work in African, Caribbean and Pacific (ACP) countries and Overseas Countries and Territories (OCT) either through its own resources or the EDF's, and is covered by a specific guarantee from the EU member states.

Source: OECD, 2011, Report on Multilateral Aid, p.19

Coordination. Whatever the organizational model is, there can be dozens of various ministries, agencies, and other institutions involved in the process of aid delivery (one of the most decentralized and fragmented aid management systems exists in the United States with more than 25 different agencies involved). Moreover, large bilateral donors can deal with more than 30 different partners. Therefore, the problem of coordination on a national level is one the most important challenges of aid management.

In line with their commitments to aid effectiveness, several DAC members are either consolidating elements on a national system, or are studying the option of doing so. Current thinking in development suggests that integrating departments and agencies under one strategic umbrella is likely to foster complementary relationships and synergies. The DAC favors approaches which bring together all forms of assistance at the country level, such as a single system for dealing with loans, grants and technical co-operation, and global funds. The DAC members are also making greater efforts to link government, other development groups (think tanks, universities, foundations, NGOs), and sub-national authorities (regions, districts and municipalities). Closer ties will maximize the comparative advantages of different actors and avoid duplicating efforts [OECD 2009a, p. 36-37].

Coordinating development issues among agencies may be complicated when some have aims other than promoting development, when the ministries being coordinated are large and politically powerful (primarily ministry of defense or ministry of trade). In this sense, the **whole-of-government approach** is especially important. It can be implemented both at the level of "headquarters and in the field" – in partner countries and is especially important in management of aid to fragile and conflict affected countries [See more in Lecture #11]. A number of large development agencies have established semi-permanent inter-departmental committees to co-ordinate activities, for example the United States, France and Japan. The membership, agendas and mandates of such committees vary but the key factors that affect their impact are the degree of authority that they have, their mandate and membership, the frequency of formal and secretariat meetings, and the range of issues they address [OECD 2009a, p. 18] (See Box 8.3.). Germany has introduced the concept of the country team and increasingly puts all its implementing agencies under one roof in a "German House".

Aid management in partner countries. The ambassador and other diplomats play an important role in linking development programs and broader foreign relations in partner countries. The ambassador, or head of mission, represents the donor country at the highest level and can influence decisions important for achieving development goals, such as upholding democratic practices, and promoting good governance and respect for human rights. In many countries, ambassadors help formulate assistance strategies and may need to endorse them before their implementation. Some ambassadors, or heads of mission, also have funds at their disposal to support small development projects. Therefore, diplomats posted to developing countries should have a good grounding in development issues [OECD 2009a, p. 31].

One of the primary challenges of aid management and factors that affect directly the efficiency of coordination between different donors is the degree of decentralization. In practice, in most cases the aid management systems are decentralized. The decentralized model of aid management implies the presence of a network of donor country's offices in partner countries that implement the aid programs. The representatives can be either bureaus of national aid agencies or diplomatic missions that are responsible for aid delivery. The degree of decentralization varies considerably from country to country due to many factors, such as political will, the organizational complexity of management (the number of ministries and implementing agencies involved), the volume of aid, and the number of main partner countries. The decentralized model is often more effective, for its flexibility allows a quicker reaction to the needs of the partner country.

The structure of the USAID represents, arguably, the best example of a decentralized model. The USAID has a complex network of bureaus in many countries across the globe, whereas the DFID adheres to the principle of centralization and provides development assistance through its headquarters in London.

All donors face three main challenges when decentralizing aid management: 1) clearly defining roles and responsibilities between headquarters and field offices; 2) adapting management systems; and 3) securing human and financial resources [OECD 2009a, p.35].

Box 8.3. Inter-agency coordination in individual DAC members.

Inter-ministerial co-ordination in France
The French Inter-Ministerial Committee for International Co-operation and Development (CICID) was established in 1998 to promote co-ordination across ministries. The Prime Minister presides and members include the Minister for Foreign Affairs, the Minister for Economic Affairs and Finance, the Secretary of State for Co-operation, the Minister for Immigration, Integration, National Identity and Co-Development, as well as other ministers who have responsibilities related to the development co-operation program – 12 ministers in all. The aims of CICID are to: I) specify the countries that can be considered as belonging to France's Priority Zone for Partnerships; II) set guidelines for the objectives and instruments of international co-operation and development assistance policy; III) ensure geographical and sector coherence among the different components and institutions of French co-operation; and IV) monitor and evaluate aid according to the targets that are set, including aid effectiveness targets. CICID meets at least once a year and may meet at official or senior official levels in between. The Ministry of Foreign Affairs and the Ministry of the Economy, Finance and Industry are the co-secretariat for the committee.

Inter-agency co-ordination on aid effectiveness in the United States
The Policy Co-ordination Committee (PCC), established under the National Security Council is the day-to-day fora for inter-agency co-ordination. In 2007, PCC agendas included aid effectiveness for the first time, and led to the formation of an Inter-Agency Working Group on Aid Effectiveness, subsequently re-named the Sub-Policy Co-ordination Committee (Sub-PCC) on Aid Effectiveness. Committee members include representatives of major agencies managing US foreign assistance and trade. The Sub-PCC on Aid Effectiveness has two major purposes: to improve internal US Government co-ordination at headquarters and in partner countries, and to coordinate US whole-of-government policy positions on international aid effectiveness. The Sub-PCC has approved and put in place an Inter-Agency Aid Effectiveness Action Plan and established US whole-of-government positions on aid effectiveness for the 2007 and 2008 G8 summits, the High Level Seminars of the Development Co-operation Forum, the Third High Level Forum on Aid Effectiveness and the Financing for Development +5 Review.

Institutional consolidation in Japan
Japan's historically fragmented approach to ODA (loans, grants, technical co-operation administered by separate bodies) underwent a substantial change in 2006. The reform created a top-level, cross-ministerial body, the Overseas Economic Co-operation Council (OECC), chaired by the Prime Minister, to deliberate on important development matters. The bilateral and multilateral aid responsibilities of the Ministry of Foreign Affairs were merged into one bureau, while the ODA loan function of the Japan Bank for International Co-operation and a part of the grant aid function of the Ministry of Foreign Affairs were merged into the Japan International Co-operation Agency (JICA). The immediate result of this consolidation is a more strategic and integrated national approach which is likely to strengthen the effectiveness of the Japanese system in delivering the national policies determined by the OECC.

Source: OECD, 2009, p.18, 37.

Aid systems are dynamic and constantly evolve. The changes in aid management system (establishment of new bodies, reorganization, centralization or decentralization) are often related to the changes in the government, rotation of officials, changes in the volumes and dynamics of aid delivery, changes in management modalities (through strengthening

coherence in bilateral aid allocation on the partner country level, or orientation towards results-based management). New development commitments also induce changes in national management systems.

3. Planning

Currently the DAC members have the most development and institutionalized principles and mechanisms for planning development aid. Planning of the levels of bilateral aid is carried out by ministries and agencies responsible for implementation of aid projects. The approval of aid allocations is through annual budget appropriations passed by parliament. Once parliament has approved the budget, resources are allocated to the spending authorities (government departments, aid agencies or embassies), and then directed either to partner countries or to financing project and programs of multilateral institutions. The allocation of bilateral and multilateral aid funds requires choices which are made with different principles and mechanisms.

The DAC member countries primarily fund foreign assistance programs through annual budget appropriations passed by parliament, in general one to three months before the beginning of the financial year. National authorities that manage the budget do not always have enough freedom to adjust allocations to changing circumstances or unforeseen events, such as emergencies and humanitarian crises. However, in some countries, parliaments are more precise in specifying geographic allocations, levels of aid for particular countries or regions, or particular uses. This more prescriptive approach may reduce the efficiency and effectiveness of foreign assistance programs as it forces aid managers to adjust existing programs and to allocate resources to comply with the requirements set by parliament. There are also other factors that significantly distort the planned expenditures for bilateral aid programs. They include also supplementary funds from sub-national (regional) authorities (e.g. regions, districts, provinces, and municipalities) [OECD 2009a, p.60].

Planning bilateral aid expenditures. The levels of bilateral aid expenditures reflect the priorities outlined in the donors' development assistance strategies, and the overall policy goals in a given recipient country. Planning of aid expenditures is carried out within the framework of public financial management according to specific principles that vary from donor to donor.

Another factor that complicates financing bilateral aid programs is the absence of an integrated plan of expenditures on ODA which occurs where several ministries implement foreign assistance activities and fund aid related activities from its own regular budget allocation. This practice undermines the coherence of the aid system, complicates monitoring and reporting of development related expenditures, and increases transaction costs for both the donor and the partner country concerned [OECD 2009a, p.61].

The contribution of sub-national authorities to the DAC member countries' foreign assistance can be important. This form of assistance is referred to as decentralized cooperation or twinning, is most developed in Austria, Belgium, Canada, France, Germany, Italy, Portugal and Spain. In France, Italy and Spain, sub-national authorities are guided

by national legislation, or a policy established by the national development agency. The involvement of sub-national authorities in foreign assistance activities raises the overall level of a country's aid, makes it easier for citizens to engage in development related activities, and promotes greater public awareness and understanding of development issues. However, if there is no strategic framework, activities may be scattered or duplicate each other. Where they exist, monitoring and evaluation mechanisms can overcome these risks where donors are working on reforms to improve the performance of sub-national authorities as donors. The reforms include establishing databases to collect information on sub-national development activities, identifying good practices in development cooperation for sub-national authorities, and developing common tools for monitoring and evaluation. Sub-national authorities may resist implementing the principles of aid effectiveness, but developing appropriate tools for them to use and sensitizing them to the importance of the Paris commitments can help overcome this resistance [OECD 2009a, p.62].

One persistent issue in managing foreign assistance funds is how to ensure *aid predictability* and reconcile the long-term nature of development co-operation, which calls for multi-year planning, with the normal practice of approving aid appropriations year by year. Meeting the ambitious aid targets which the DAC member countries have set for themselves in order to achieve the MDGs implies medium-term planning. This means that the predictability of aid flows in the medium term must improve in order to enable finance ministers in partner countries to plan and make the investments required to achieve the MDGs.

In at least half of the DAC member countries, ODA budget proposals for parliamentary approval generally include a forward looking, three- to four-year indicative spending plan or expenditure scenario. In some cases (e.g. Switzerland) where members have set a target for their ODA/GNI and the parliament endorses a multi-year budget, such endorsement does not guarantee funds in subsequent years. Payments can be authorized only from approved annual budgets [OECD 2009a, p.62].

Many recipient countries finance some programs in parallel. Aid recipient countries may address several donors simultaneously because they do not know how much funding the donors actually will be able to allocate, and how long the disbursement of such funds will take. Therefore, the probability of duplication of efforts increases. Harmonization, on the contrary, can reduce the share of fragmented aid.

Another important element of coordination is the use of *country programmable aid* (CPA) in national poverty reduction strategies. The allocation of fixed volumes of aid in accordance with a long-term expenditure plan helps the partner countries implement reforms. The Strategic African Partnership (SPA) Budget Support Survey conducted in 2007[81] showed that quality of budget support programs is defined by the predictability of funds allocated in accordance with the long-term planning. The use of long-term financing provides such benefits as reduction of transaction costs, increasing donors' accountability and the transparency of aid flows. Long-term financing makes it possible to assess the degree of donor's concentration in the region.

81 UNCTAD (United Nations Commission on Trade and Development). 2008. Budget Support: A Reformed Approach or Old Wine in New Skins? United Nations Conference on Trade and Development.N190, 2008.

Management of bilateral aid programs is carried out on two levels (the national with management from the headquarters, and the local with decentralized management of aid in the partner countries). The DAC members involve headquarters, embassies and development agencies in planning assistance programs with partner countries. Most donors involve the government of the partner country in bilateral consultations when preparing country strategies. Some involve other local actors as well. Donors may also provide one to four year financial forecasts. The United Kingdom, for example, usually has three-year financing timeframes but has signed ten-year partnership agreements with Afghanistan, Rwanda and Sierra Leone. Donors are also considering adjusting disbursement plans to schedules and formats better suited to the needs of partner countries, and disbursing general budget support in the first six months of their financial year [OECD 2009a, p.63].

Some donors are also considering adjusting the schedule and formats of disbursement plans to multi-year plans that outline the specific modalities of assistance in specific sectors and regions. However, not all donors use this practice. The extent to which donors share information with partner countries varies. Some sign co-operation agreements that indicate future anticipated funding levels, while others only share such information on an informal, non-binding basis. Yet other donors do not share such information at all, or only share it with selected recipients, or in relation to budget support. Luxembourg, for example, provides five-year financial envelopes for some co-operation programs. Similarly, EC country strategy papers cover a medium-term timeframe of five or six years. However, even though with multiple financing instruments, the complex and lengthy approval processes in Brussels and disbursement delays are likely to cause unpredictable aid flows to partner countries [OECD 2009a, p.63].

Planning multilateral aid allocations. Multilateral aid allocation decisions are made up of a variety of assessed (as a condition of membership) and discretionary choices. Contributions to some multilateral organizations (e.g. the IMF, multilateral development banks, the EC Budget, and the UN Secretariat) may be required (assessed) as a condition of membership or locked in for a number of years depending the outcomes of replenishment negotiations (e.g. EDF, IDA, Global Environment Facility [GEF], and the Global Fund). Some multilateral organizations, e.g. the WHO and UNEP, may also be funded on both assessed and voluntary bases and others entirely voluntarily (e.g. most UN Funds and Programs) [OECD-DAC 2011, p. 17].

In around one-half of the DAC member countries, finance ministries (or equivalents) determine capital subscriptions to, and recapitalizations of, the non-concessional windows of multilateral development banks – the Asian Development Bank (ADB), the African Development Bank (AfDB), the Inter-American Development Bank (IBD) and the World Bank's IBRD. Australia, Belgium, and Canada also involve their development ministries and agencies in such funding decisions. Authority in Germany, Greece and the United Kingdom lies exclusively with the development agency or the ministry whose mandate covers multilateral development banks, while in Denmark, Finland, Norway and Sweden the ministry of foreign affairs decides. The concessional windows of the development banks and funds – African and Asian Development Funds, IDB Fund for Special Operations, PRGF, and HIPC trust funds and the World Bank's IDA –operate on the basis of voluntary

contributions, although some guides to burden-sharing may be decided in advance. Decision-makers in donor governments are the same as those for the non-concessional windows mentioned above.

EU member states negotiate replenishments of the EU's European Development Fund every five years. Ministerial responsibilities vary across the fifteen DAC EU members. One-third of members lead the negotiations from their development, finance and foreign ministries or government departments. In the DAC member EU countries, the share of the EU budget scored as ODA is a notional, or non-discretionary, amount that does not feature as a separate item in budgets. The United Kingdom, however, has reintroduced the ODA-eligible portion of its EU budget into the DFID budget for oversight purposes [OECD-DAC 2011, p.68].

Core funding for multilateral agencies are multi-year. The EC's ODA instruments stretch over six to seven years, and the UNDP's multi-year financial framework over four years [OECD-DAC 2009, p.68].

Another methodological and practical problem of financing aid programs is non-core funding, i.e. earmarked contributions to multilateral organizations aimed at meeting the urgent needs of the recipient countries. The coexistence of core and non-core contributions creates additional challenges, as well as opportunities. On the one hand, non-core funding raises transaction costs within an organization that receives such contributions, because the conclusion of funding agreements and the implementation of agreed monitoring and reporting procedures requires additional time. On the other hand, the provision of non-core funds through multilateral channels contributes to addressing the challenge of aid fragmentation and complements the core programs of international organizations.

Relationships with United Nations agencies often span a number of ministries. For example, although core contributions and relationships with the World Health Organization are usually managed by the ministry of health, development and technical specialists in the development agency or the ministry of foreign affairs may provide backup [OECD 2009a, p.69].

The question of planning contributions to multilateral organizations is far from being trivial, especially in the case of the UN. Most of its programs and funds, notably, the UNDP are financed on a voluntary basis. Moreover, many national governments of developing countries, including the countries of Latin America, use the UNDP mechanisms to achieve their own goals.

The World Bank is the largest multilateral donor that accounts for the largest part of non-core funding. The WB's management model allows for flexibility and reacts rapidly to changing situations through establishing special trust funds aimed at the implementation of issue/country-specific programs. The World Bank can either utilize the regional trust-funds, or administer and manage the funds itself that it receives from donors.

In the European Community, policy coherence and the management of development aid are complex issues. Decisions are influenced by Member States, the European Parliament and the European Commission (EC), all of whom may have different and sometimes conflicting agendas. The Commission implements development co-operation activities and is the world's largest multilateral grant provider. The key actors in the Commission are the Directorate-General for External Relations and the Directorate-General for Development,

The European Commission finances development activities through European Union budget lines for external relations and through the European Development Fund (EDF), which is a multi-annual program that supports developing countries in the African, Caribbean and Pacific regions [OECD 2009, p.69].

In the post-crisis environment the need for coordination between multilateral institutions in specific sectors and regions has increased. A good example of this cooperation is the establishment of an inter-institutional arrangement by the UN programs and funds (WHO, ILO, UNESCO, FAO, WFP, UNDP, UNICEF) and the World Bank Group which allows for a rapid transfer of funds between organizations. This became an important step toward an establishment of the International Aid Agency that would coordinate the activities of donors and exert oversight over the financing and the implementation of development programs[82].

In most DAC member countries, engagement with multilateral organizations is a high priority. Some member countries have recently developed, or are in the process of developing, an overall strategy for their engagement with multilateral organizations, setting multilateral priorities and objectives. These strategies guide decisions about ongoing relationships, funding levels and "whole-of-government approaches" to managing partnerships with multilateral organizations. Other donors set multilateral priorities as part of their overall development policy. In general, the multilateral objectives and priorities of the DAC member countries either align with their bilateral priorities and objectives, or complement them by setting priorities and objectives for multilateral engagement in regions, countries and sectors which are outside the bilateral framework. The majority of the DAC members follow the first approach [OECD 2009a, p.72].

Global funds and programs. Global funds that support specific sectors and sub-sectors, for example, health, HIV/AIDS, primary education and the environment, are major multilateral channels for donor funding, particularly for low-income countries. These funds are distinct from multilateral organizations in that they attract, manage and distribute resources for global purposes.

There are strong incentives for the donor community to create new funds to mobilize public support for visible and widely-shared priorities, and to respond to emerging issues. [OECD 2009a, p.71] For the most part, global funds are channeled through country budgets, although some channel funding through NGOs or the private sector. Global funds can be very effective in complementing multilateral and bilateral country programs to achieve specific development objectives. The Paris Declaration on Aid Effectiveness rightly identified the priority task for global programs to improve their integration at the country level. Some global funds provide sector budget support, or take sector-wide approaches, thereby becoming more integrated into sector dialogues. For example, the Global Fund to Fight AIDS, Tuberculosis and Malaria has joined such programs in Malawi, Mozambique, and Rwanda. The Global Environment Fund channels funding through United Nations agencies and multilateral development banks at the country level [OECD 2009a, p.72].

Global funds have some weaknesses. The focus on a single issue neglects synergies and may contradict support for country-led development partnerships based on national

82 Riddel, Roger C. 2007. Does Foreign Aid Really Work? Oxford: Oxford University Press. p. 93

priorities and strategies. Global funds may duplicate existing structures and increase transaction costs. These strengths and weaknesses may significantly influence the funding decisions of the DAC member countries [OECD 2009a, p.72].

Another shortcoming of the activities of global funds is related to results-based management. Their practices differ substantially from monitoring and impact evaluation practices used by other donors in measuring progress on achieving development goals. Funds can struggle to provide country reporting because of their lack of representation in partner countries[83]. Often global funds stick to international standards. They necessarily do not align their activities with national standards of partner countries. Global funds do not need to enhance cooperation with other donors that implement development assistance programs in specific countries or regions.

4. Programs of optimization of aid management systems

Given the need to evaluate progress toward achieving the MDGs by 2015, implementation of programs aimed at increasing the effectiveness of aid management is becoming one of the top priorities. The programs of reform by donors differ in form and implementation methods, and the composition of the actors. Nonetheless, it is possible to identify several key directions for reform of aid management systems:

1) Mainstreamification of results-based management;
2) Increasing transparency and effectiveness of aid management;
3) Increasing aid effectiveness; and
4) Revisiting role of ODA in donor countries' development projects.

Let us examine each of these directions in greater detail.

The implementation of mechanisms of "Managing for Development Results"[84]

The concept of "managing for development results" was introduced at the Second Roundtable on Managing for Development Results in Marrakesh in 2004[85]. It is defined as managing and implementing aid programs or projects in a way that focuses on their results. This approach uses information to improve decision-making and to increase the effectiveness of aid programs. MDR implies the use of practical instruments of strategic planning, risk management, and impact evaluation[86]. Later, management for results was outlined as one of the key principles of the Paris Declaration. The establishment of transparent and monitorable performance assessment frameworks set as one of the targets to assess progress against: (a) national development strategies, and (b) sector programs. Donors agreed to reduce by one-third by 2010 the proportion of countries without transparent and monitorable performance assessment frameworks[87].

In the broadest sense the "managing for development results" concept implies assessing the real impact of aid on living standards in the partner country. The concept if implemented can lead to institutional reforms, and adopting country strategies that provide the basis for

83 OECD. 2009. "Aid Effectiveness: A Progress Report on Implementing the Paris Declaration". Paris: OECD.
84 Managing for Development Results, Policy Brief, Organization for Economic Cooperation and Development. URL: http://www.oecd.org/dataoecd/18/53/42447575.pdf
85 Second Roundtable on Managing for Development Results. URL: http://www.mfdr.org/2ndRoundtable.html
86 Second Roundtable on Managing for Development Results. URL: http://www.mfdr.org/documents/RapporteurSummaryofSeminarIII.pdf
87 OECD. 2008. The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action. URL: http://www.oecd.org/dataoecd/11/41/34428351.pdf

the development policies of partner country governments, and by multilateral and bilateral donors. This approach reflects the major principles of the "good governance" concept, such as establishment of clearly defined goals, transparency of decision-making process, and the constant improvement of effectiveness based on analysis of past experiences.

The MDR concept makes it possible to unite international efforts aimed at: meeting key commitments in the sphere of aid management, increasing the effectiveness of aid programs, and establishing the principle of mutual accountability. At the same time, the goals are not only clearly defined and measurable but also defined as program results/ outcomes (for example, the level of infant mortality reduction, the level of schooling etc.) One of preconditions for success is a comprehensive endorsement of these goals by donors and their incorporation into the national development strategies of partner countries.

To establish sets of goals and strategies at the national level and to align them with international development priorities is a complex task. It is difficult from both political and technical perspectives. The core challenge of the MDR concept is to incorporate the MDGs into national development and poverty reduction strategies, and into multilateral regional and sector cooperation plans. Another challenging task is to achieve harmonization of donors' approaches and to align their goals with the national priorities of developing countries. Multilateral institutions, the OECD-DAC, the World Bank and the UN institutions play a significant role in achieving this goal and coordinating efforts of the key stakeholders, including the process of aid budget appropriations.

Establishing an effective MDR system requires the establishment of a multi-level system of cooperation and the harmonization of management procedures. For example, at the level of developing countries a success in implementation of the MDR approach depends on five factors: political influence, high national capacity, the alignment of MDR principles with national systems in partner countries, conducting impact evaluations at the national level, and participation in international program evaluations.

Often the establishment of MDR systems begins with changing the procedures for monitoring and impact evaluation. The Survey on Implementation of the Paris Declaration showed that only 5 percent of countries used MDR frameworks. Although some efforts at implementation of this concept were undertaken in 56 countries, the evidence suggests that the achievement of this objective will take at least 7 years.

The activities of the international community aimed at the implementation of MDR have three dimensions. The first dimension is building the capacities of national institutions. Developing countries are invited to cooperate with foreign aid agencies, civil society and other stakeholders to implement national development strategies, and to achieve the results that are outlined in them. The primary task for multilateral institutions is to strengthen the capacities of developing countries to achieve declared results through dissemination of statistical information and the provision of support aimed at building country-based monitoring and evaluation capacities.

The second dimension is increasing the effectiveness of aid. For most aid agencies the implementation of the MDR concept means a shift of focus from cost-effectiveness analysis to assessments of the long-term impact of their activities in developing countries.

In this respect, multilateral donors incorporate MDR performance assessment networks in their strategies and programs, emphasize sustainable country performance, and establish systems for reporting on results.

Finally, the third dimension is the establishment and strengthening of global MDR partnerships that will support the key actors in getting reliable and up-to-date data on achieving MDGs, and the strengthening of international reporting mechanisms through the development of universal monitoring and evaluation procedures.

Moreover, donors working together with partner countries must develop an agreed upon results framework covering a 10 to 15-year period after 2015 based on the principles outlined in the Millennium Declaration, the Monterrey consensus, the Rome and Paris Declarations, the Accra Agenda for Action, and the Busan Declaration. A new framework can contribute to poverty reduction and lay the foundations for addressing various global challenges.

Increasing transparency and effectiveness of managing financial flows

In spite of donors' activities aimed at aligning with national priorities, the tendency still prevails to use the techniques and procedures designed to benefit donors, as opposed to recipients. To reverse this trend it is necessary to ensure the diversification of channels of information delivery and to increase the transparency of aid programs. Public disclosure of financial information is the most effective instrument for the implementation of international transparency standards. For example, the most promising way to increase transparency is to comply with provisions of the International Aid Transparency Initiative (IATI). Increasing transparency of aid flows requires the adoption of measures in partner countries; notably, those aimed at strengthening the capacity of developing countries' ministries of finance to effectively administer aid flows, including through development of new monitoring and evaluation methods.

Increasing aid effectiveness. To increase the effectiveness of aid and to achieve results that the poorest population can benefit from, it is vital to address challenges related to the implementation of the principles of national ownership, alignment with national and local priorities, increasing accountability to parliaments and local populations, as well as accountability by donors. The more partner countries depend on aid, the more urgent this issue becomes. The issue of increasing the effectiveness of aid remains especially relevant for several groups of countries: islands, small or landlocked countries with limited economic potential, as well as conflict-affected and fragile states.

Revisiting the role of ODA in international development cooperation

The post-2015 period will call for a revision of aid volumes and an examination of the role of development finance. In order to change the economic conditions in the poorest countries it is necessary to answer several pivotal questions:

- Who will provide development assistance to the poorest countries?
- How will donor countries define ODA?
- For which purposes will the funds be allocated?
- How low should the concessional level of a concessional loan be?

In order to answer the question "Who will be considered a donor and what flows will qualify as ODA?", established donors that accept the OECD-DAC definition of ODA and emerging donors that think that their contributions to development of the poor countries are fundamentally different should reach consensus. To agree on the goals of development assistance it is necessary to understand the role of aid in strengthening regional economic potential and the interdependence between aid programs and projects and global governance arrangements. At the same time, it is vital to take into account the views of emerging donors.

The criteria for concessionality of aid flows established by the OECD-DAC should also be revisited. The current standards for providing concessional loans are not fully applicable to the emerging donors that provide concessional loans which do not meet ODA criteria. The logical solution to the problem is the adoption of the IMF definition of loan concessionality. International practice clearly has showed that provision of concessional loans can help bilateral donors and multilateral development banks address many challenges in the sphere of international development. These aid flows can become more important for the poorest countries that now will be able to get more opportunities to receive loans at near-market terms.

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The negative impacts of the global financial and economic crisis of 2007-2009 have sharpened the awareness of the necessity of revisiting the models and principles of aid management and to implement reforms aimed at increasing the effectiveness and operational efficiency of aid, ensuring alignment of donors' policies with recipient countries' priorities, and reducing the level of aid fragmentation[88].

Many countries have a limited capacity to implement a wide range of aid management reforms simultaneously. Therefore, the governments of donor and aid recipient countries should work together on setting the priorities and making gradual steps toward implementation of reforms. However, there is no reform strategy that can be guaranteed to achieve expected results. A large number of variables (the need to implement reforms, interests of key stakeholders) and country-specific factors hamper the development of a model that could be universally applicable to different conditions in a wide range of countries.

In short-term perspective, increasing flexibility and adaptability to the needs of partner countries is the priority direction for reform of aid managing systems. In the long-term, the international community should aim at finding an optimum balance between ensuring a division of labor between donors that are active in a given partner country, and fostering competition between them that can help increase aid effectiveness.

88 This direction for reform is characteristic of the Bretton-Woods institutions.

SELF-CHECK QUESTIONS

1. Which of the OECD-DAC member countries have special legislation for international development assistance?
2. Please describe general principles and procedures of planning multilateral and bilateral aid allocations?
3. Please describe the four main organizational models of aid management identified by the OECD-DAC and the factors that influence the choice of a particular model.
4. What is the "whole-of-government approach" to international development assistance?
5. Please describe advantages and shortcomings of centralized and decentralized management in the sphere of international development assistance?
6. Please describe the main mechanisms of coordination in partner countries.
7. Please describe the main forms of aid management.
8. Compare the effectiveness of the main forms of aid management.
9. What is Managing for Development Results concept? How is the shift to results-based policies implemented?
10. Please describe the main directions for reform of aid management systems and provide concrete examples of such reforms.

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LECTURE №9

CHOOSING BETWEEN FORMS, MODALITIES AND CHANNELS OF AID DELIVERY

Lecture outline

1. **Main forms of development assistance**
2. **Main modalities and channels of aid delivery**
   - 2.1. **Direct budget support**
   - 2.2. **Contributions to multilateral organizations and pooled funds**
   - 2.3. **Project financing**
3. **Project-based vs. program-based approach to development assistance**

One of the most important practical questions that donors face when providing international development assistance is how to choose between different forms, modalities and channels of aid delivery. This choice is determined by subjective strategic preferences and objective financial, organizational, and human capabilities of donor countries. The choice is directly related to the problem of aid effectiveness and the challenges which must be overcome by the implementation of the principles outlined in the Monterrey Consensus, the Paris Declaration, the Accra Agenda for Action, the Busan Declaration, and other foundational international documents. This lecture examines the key characteristics of the main forms of development assistance that transfer financial resources from donor to recipient[89], and identifies their main advantages and shortcomings.

1. Main forms of development assistance

There are three main forms of transferring financial resources for development purposes from donors to recipients: budget support, project support, and program support.

Budget support is a method of financing a recipient country's budget through a transfer of resources from an external financing agency to the recipient government's national treasury. The funds thus transferred are managed in accordance with the recipient's budgetary procedures. There are two subtypes of budget support: general budget support and sector budget support. General budget support is an unearmarked contribution to the government budget including funding to support the implementation of macroeconomic reforms (structural adjustment programs, poverty reduction strategies). Funds transferred to the national treasury for financing programs or projects are managed according to the budgetary procedures of the recipient country. Sector budget support, like general budget support, is a financial contribution to a recipient government's budget. However, in sector budget support, the dialogue between donors and partner governments focuses on sector-specific concerns, rather than on overall policy and budget priorities[90].

89 Such aid modalities included in the OECD typology as "experts and other technical assistance", "scholarships and student costs in donor countries", "debt relief", "administrative costs not included elsewhere", "other in donor expenditures' that do not give rise to cross-border flows" will not be examined in this lecture.

90 OECD-DAC. 2009. Reporting Directives for the Creditor Reporting System. Addendum on Types of Aid http://www.oecd.org/dataoecd/11/27/44479737.pdf p.5

Project support. A project is a set of inputs, activities and outputs, agreed with the partner country, to reach specific objectives/outcomes within a defined time frame, with a defined budget and a defined geographical area. The examples of projects are: construction of a school, digging an irrigation canal, building infrastructure facilities, organization of training (technical assistance), and so on. Projects can vary significantly in terms of objectives, complexity, amounts involved and duration[91]. Small projects can last several months, the large ones can be implemented in several stages and last for years[92].

Program support. In international development assistance a program is a complex of activities aimed at helping developing countries solve developmental issues. Program goals can be set by a recipient country, a multilateral organization, a global fund or a NGO. The programs established by a recipient country can have different levels of focus – the national, the sector, the sub-sector or the thematic. As for programs of NGOs, the donors can support either the overall program of the organization, e.g. its strategic plan, or on a specific program of that organization[93].

The national program is the most advanced form. National programs were first implemented in the form of the IMF and the World Bank programs of structural adaptation that conditioned access to current account support from the IMF and concessional loans from the IDA upon the implementation of a program of macroeconomic reforms. However, by the mid-1990s these programs were the subject of critiques which called for an introduction of new approaches. As a result, in as early as 1996, the OECD-DAC published the report "Shaping the 21st Century: The Contribution of Development Assistance"[94]. This report laid the foundations for elaboration of the MDGs and called upon recipient countries to prepare national development strategies. This was followed by the launching of a new program of debt relief for the poorest countries, the Heavily Indebted Poor Countries Initiative. Participation in this program was conditioned upon the preparation of a national poverty reduction strategy and the doctrinal document, the Poverty Reduction Strategy Paper (PRSP). The same year the Board of Directors of the World Bank Group and the IMF made a joint decision that these strategies must be prepared in all low-income countries that want to receive loans from the IDA and concessional loans from the IMF.

A PRSP contains an assessment of poverty within a country and describes the macroeconomic, structural, and social policies and programs that a country will pursue over several years to promote growth and reduce poverty, as well as external financing needs and the associated sources of financing. These assessments are prepared by governments in low-income countries, through a participatory process involving domestic stakeholders and external development partners, including the IMF and the World Bank.

Five core principles underlie the PRSP approach. Poverty reduction strategies should be:

- **country-driven**, promoting national ownership of strategies through broad-based participation of civil society;
- **result-oriented** and focused on outcomes that will benefit the poor;
- **comprehensive** in recognizing the multidimensional nature of poverty;

91 Ibidem

92 A large-scale project with a number of different components is sometimes referred to as a program.

93 Sida. 2008. Guidance on Program-based Approaches. URL: http://www.dsdc.gov.al/dsdc/pub/guidance_on_program_based_approaches_505_1.pdf p.21

94 OECD-DAC. 1996. "Shaping the 21st Century: The Contribution of Development Co-operation". Paris: OECD Publishing.

- **partnership-oriented**, involving coordinated participation of development partners (government, domestic stakeholders, and external donors); and
- based on a **long-term perspective** for poverty reduction.

Five basic elements of a full PRSP are the following: 1) Assessing poverty and its key determinants; 2) Setting targets for poverty reduction; 3) Prioritizing public actions for poverty reduction; 4) Establishing systematic monitoring of poverty trends and evaluating the impact of government programs and policies; 5) Describing the main aspects of the participatory process.

It has been recognized that preparation of country-owned, participatory PRSPs can be a time-consuming undertaking. In order not to delay progress in providing concessional assistance or debt relief, countries can prepare I-PRSPs that would, at a minimum, include a statement of commitment to poverty reduction, an outline of the nature of the poverty problem in that particular country, and of existing government strategies to tackle it, and a timeline and process for preparing a PRSP, together with a three-year policy matrix and macroeconomic framework (for which the outer years would be tentative) [IMF-IDA 2002, p.4].

When a government presents a PRSP to the executive boards of the World Bank and the IMF, it is accompanied by an assessment by World Bank and IMF staff. The Joint Staff Assessment (JSA) makes an overall assessment for the executive boards to evaluate as to whether or not the strategy presented in the PRSP constitutes a sound basis for concessional assistance from the IMF and the World Bank. If the donors come to the conclusion that the government in the partner country does not enjoy the full ownership of the strategy or have the capacity to implement them, the national strategies will not be considered to be a sufficient evidence of a commitment by the recipient government to poverty reduction [IMF-IDA 2002, p.4].

With time the term "poverty reduction strategies" was replaced by the term "national development strategies" for the purposes of granting developing countries greater freedom in choice of form and content of the strategies. As of the end February 2012, 110 full PRSPs have been circulated to the Fund's Executive Board, as well as 57 preliminary, or "interim", PRSPs[95].

The national program can include sector programs, programs of specific organizations, thematic programs, and even individual projects.

2. Main modalities and channels of aid delivery

The aforementioned forms of providing assistance are interconnected with the specific aid modalities outlined in the OECD-DAC typology (see Part II, Lecture №3), the most significant of which are: direct budget support, contributions to international organizations, and pooled funds and project financing. The choice of a particular form does not automatically imply the choice of a channel of delivery or a financing modality. For example, it is possible to provide project support not only through project financing,

95 IMF (International Monetary Fund). 2012. "Poverty Reduction Strategy Papers (PRSP). Factsheet". URL: http://www.imf.org/external/np/exr/facts/prsp.htm

Box 9.1. National Development Strategies of Afghanistan and the Republic of Tajikistan.

Afghanistan. The Afghanistan National Development Strategy for 2008-2013 serves as the country's Poverty Reduction Strategy Paper (PRSP). The ANDS lays out the strategic priorities and the policies, programs and projects for achieving the Government's development objectives. The pillars and goals of the ANDS are:

1. Security: Achieve nationwide stabilization, strengthen law enforcement, and improve personal security for every Afghan.
2. Governance, Rule of Law and Human Rights: Strengthen democratic processes and institutions, human rights, the rule of law, delivery of public services and government accountability.
3. Economic and Social Development: Reduce poverty, ensure sustainable development through a private-sector-led market economy, improve human development indicators, and make significant progress towards the Millennium Development Goals (MDGs).

A further vital and cross-cutting area of work is eliminating the narcotics industry, which remains a formidable threat to the people and state of Afghanistan, the region and beyond.
21 new generation National Priority Programs and 3 initiatives "Transitioning to Afghan-led Security – Joint Framework for Intequal" Afghanistan Peace and Reintegration Program (APRP), 'Regional Cooperation'). These Initiatives are included in "Prioritization and Implementation Plan" (mid-2010 – mid-2013), adopted at donor conference in Kabul on July 20, 2010. The Plan will have been implemented by 2013 in 5 stages. The program budget is estimated to be US$50 billion[1]

Tajikistan. In 2005 the President of the Republic of Tajikistan Emomali Rakhmon initiated the drafting of this National Development Strategy (NDS), which is intended to provide for an orderly long-term development process in accordance with the Millennium Development Goals (MDGs). As Tajikistan's principal strategic document, the National Development Strategy defines the priorities and general thrust of government policy, which is focused on achieving sustainable economic growth, expanding the public's access to basic social services and reducing poverty. All of the state, sector and regional conceptual frameworks, strategies, programs and plans for the country's development currently in place and under development, as well as the activities of all government agencies, are based on the National Development Strategy. The National Development Strategy serves as a tool for engaging in a dialogue with the business community and non-governmental organizations.
Within the NDS framework 3 medium-term poverty reduction strategies for 3 years each were elaborated in Tajikistan. The activities under the PRS for 2010–2012 are focused on the development of 12 sectors (directions) of economic reform, which have been provisionally combined into three blocks based on their role and place in promoting strong and sustainable economic growth and improving the range and quality of social services provided to the poor: (i) the establishment of the general conditions for development (the Functional Block); (ii) promotion of sustainable economic growth (the Production Block); and (iii) development of human potential (the Social Block). The NDS is the basis for conducting dialogue with all stakeholders, including the business community, non-governmental organizations, and permanent missions of the international organizations and donor countries[2].

1 Afghanistan National Development Strategy. 2008-2013. URL: http://www.undp.org.af/publications/KeyDocuments/ANDS_Full_Eng.pdf Prioritization and Implementation Plan (mid 2010 – mid 2013). Vol.I,II. 20 July 2010. URL: http://www.cooperazioneallosviluppo.esteri.it/pdgcs/italiano/speciali/Afghanistan2011/Pdf/afghanistan_ands_pip_2010-2013.pdf

2 Development Strategy of the Republic of Tajikistan until 2015. URL: www.rhd.tj/images/stories/nsr.doc.

but through earmarked contributions to multilateral and non-governmental organizations or within the framework of sector-wide approaches (SWAPs). The choice of aid modality, in its turn, is closely linked to the choice of channel of aid delivery, i.e. the first implementing partner in a chain of delivery of financial and other funds within ODA.

The choice of aid modality and channel of delivery is determined by a range of objective factors including the financial, organizational, and human capacities of a donor country. There are also more subjective factors, including the donor's strategic preferences and the perception of the risks related to providing assistance in a particular form.

The OECD-DAC identifies three categories of risks that any donor has to deal with. The first category is contextual risks (risks of state failure, renewal of hostilities, emergence of a humanitarian crisis) that the external actors can barely control but that can be minimized by the efficient aid programs. The second category of risks is programmatic risks. They include the potential for an aid program to fail to achieve its objectives; and the potential for the program to cause harm in the external environment. The third category is institutional risks. These institutional risks include operational security risks: e.g. threats to the safety of staff and partners or the continuity of programs; financial and fiduciary risk: e.g. financial loss and risk of institutional liability for loss/failure resulting from corruption or financial mismanagement; reputational risk: e.g. damage to a donor's reputation if it fails to achieve its objectives, or from financial/fiduciary failure.

These risks are interconnected. For example, the formulation of modest intervention goals minimizes programmatic risks, but reduces the chances that the intervention will be successful in term of elimination of threats to development faced by the recipient country and vice versa[96].

Below we examine the advantages and shortcomings of each of the main aid modalities.

2.1. Direct budget support is a method of financing a recipient country's budget through a transfer of resources from an external financing agency to the recipient government's national treasury. The funds thus transferred are managed in accordance with the recipient's budgetary procedures and strategic priorities. By sharing the responsibility with the recipient, the donor relinquishes the exclusive control of its funds. Funds transferred to the national treasury for financing programs or projects are managed according to different budgetary procedures from those of the recipient country, with the intention of earmarking the resources for specific uses, are therefore excluded. This aid modality can be used for both general and sector budget support, but the mechanisms of management of funds are the same for both categories.

The general budget support has been, undoubtedly, the most widely discussed aid modality in recent years. The reason is that it hypothetically matches most closely the principles of aid effectiveness outlined in the Paris Declaration.

This aid modality has the following advantages: an automatic alignment between donor and recipient; the most significant reduction of transaction costs; it facilitates donor coordination and enhances of the predictability of aid flows; it fosters institutional development, and it increases accountability [OECD 2006, p.26].

96 OECD. 2011. "Managing Risks in Fragile and Transitional Contexts. The Price of Success?" OECD Publishing, Paris. p.24-27.

Box 9.2.Budget Support — Lessons Learned

A major 2006 evaluation of general budget support (GBS) in seven developing countries (Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, and Vietnam) commissioned by the Organization for Economic Cooperation and Development's Development Assistance Committee (OECD-DAC) concluded that budget support had been a relevant response to acknowledged problems in aid effectiveness, and can be an efficient, effective and sustainable way of supporting national poverty reduction strategies. It found that GBS had positive effects on harmonization and alignment, and on strengthening government ownership and accountability. It also had positive effects on the efficiency of public expenditure, and on government capacity, particularly in public finance management. Budget support had also led to improvements in access to services in most countries.
There was no evidence of significant crowding out of private investment or of undermining domestic revenue effort, nor any clear evidence that budget support funds were more affected by corruption than other forms of aid. However, the evaluation expressed reservations about impacts on poverty reduction and the quality of basic services. A revised evaluation methodology is currently being piloted in Mali, Tunisia and Zambia. Recent independent evaluations of European Commission country programs in 20 countries where budget support has been a significant feature have generally confirmed its relevance, and recommended its continuation. But in general, it has been difficult to assess the impact of budget support on poverty reduction and other MDG indicators. Questions of attribution, and also of assessing what might have been achieved with alternative instruments (the counterfactual), have proved particularly difficult.

Source: European Commission. 2010. Green Paper from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions. The Future of EU Budget Support to Third Countries. p.6

Budget support, however, also has potential disadvantages for partner countries. A donor's decision to provide budget support is based on a range of factors, including: an assessment of the partner's public financial management systems, and the likelihood that resources would be used for agreed purposes. Donors usually do not provide direct budget support in cases when they cannot be sure that agreed reforms will be implemented, or goals will be achieved. Moreover, the transfer of funds directly to the budget of an aid recipient provides for much lower visibility of donors' efforts than other aid modalities.

The donors can be extremely selective in choosing recipients of direct budget support. After a country passes through this selection process, it hypothetically receives the full ownership over aid programs. However, in practice the selection criteria is rarely met. That is why donors often begin to use budget support to push the countries toward particular reforms [Dijkstra 2011].

To induce such reform donors can employ sanctions. They can defer or block the disbursement of committed funds in the previously agreed time-frame. Sanctions have several negative consequences. First, a recipient country is forced to finance the declared programs with its own monies. Second, it increases the volatility and unpredictability of aid flows which can be particularly risky in the most vulnerable conflict-affected and fragile states. Third, it contradicts the ownership principle. Moreover, there are certain problems related to the implementation of the principle of "harmonization". Donors provide budget support using their own schedules for aid disbursement and imposing political conditions. In this respect, the use of SWAPs can be more effective.

2.2. Contributions to multilateral organizations and pooled funds.

This category covers several types of contributions: 1) core support to NGOs, other private bodies, PPPs and research institutes; 2) Core contributions to multilateral institutions; 3) Contributions to specific-purpose programs and funds managed by international organizations and 4) Pooled funding/basket funding. Whatever the modality is, the donor relinquishes the exclusive control of its funds by sharing the responsibility with other stakeholders (other bilateral donors, NGOs, multilateral institutions, PPPs).

Because of their importance let us examine each of these aid modalities both by way of review and to provide greater detail.

Core support to NGOs, other private bodies, PPPs and research institutes – the funds are provided for use at the latter's discretion, and contribute to programs and activities which these actors have developed themselves, and which they implement on their own authority and responsibility.

Core contributions to multilateral institutions (Multilateral, INGO) can be mandatory, or regular. The recipient multilateral institution pools contributions so that they lose their identity and become an integral part of its financial assets. The core contributions include regular contributions of the European donors to the EDF, and IDA replenishments.

Contributions to specific-purpose programs and funds managed by international organizations. In addition to their core-funded operations, international organizations set up and raise monies for specific programs and funds with clearly identified sector, thematic or geographical focus.

Trust funds are also recorded here. Trust funds are vehicles for channeling aid resources from governmental and nongovernmental donors to be administered by a trustee organization such as the World Bank or other development organization. Trust funds are not programs in themselves; rather, they are dedicated sources of funding for programs and activities agreed upon between the donor(s) and the trustee organization [IEG 2011, p.3].

The World Bank is trustee for roughly half of the total trust fund contributions [IEG 2011, p.2]. Trust funds administered by the World Bank are highly varied. They comprise single-donor and multidonor funds, and may provide financing to single or multiple recipient countries in support of a specific issue. The activities that trust funds finance are also highly varied. They range from huge global programs with their own governance structures to conventional development projects; debt relief operations; and studies, technical assistance, and project preparation carried out by the World Bank or recipients [IEG 2011, p.vi-vii].

In the current environment of budget constraints, proving that development assistance provides value for the money allocated is more important than ever. Governments face increasing pressure from legislative bodies and civil society to scrutinize and even limit multilateral aid. Multilateral aid often appears too far removed from donor government financial oversight. Indeed, it often escapes their control as key decisions on what, where and how it is actually delivered are taken at the supranational level. However, governments may be able to offset concerns over accountability and control against the efficiency gains achieved from pooling resources across donors. The pooling of resources spreads the aid

burden and leverages experience, sector- and country-based expertise, geographic reach, and other assets which are arguably better deployed through joint efforts [OECD-DAC 2011, p.9].

Recent research indicates that the "principal-agent model" may best explain the decisions involved in choosing multilateral aid. In this model, an individual donor (principal) and multilateral agency (agent) are divided between the loss of control over funds and the benefits of burden sharing. How well the preferences of the agent align with those of the principal will often determine the degree to which this loss of control is a preoccupation for the principal (donor) [OECD-DAC 2011, p.5].

An effective method of solving this dilemma is to provide earmarked funding to multilateral organizations or funds which allow some donors to track results more easily, while raising the visibility of their aid effort in the eyes of domestic constituencies. Some DAC member countries have started to refer to this practice as the growing "multilateralisation" of bilateral aid, while multilateral organizations perceive it as a growing "bilateralisation" of multilateral aid [OECD-DAC 2011, p.28].

Donors use trust funds to do things that would not be possible through traditional multilateral aid channels, such as earmarking their trust fund contributions for particular countries and development issues. And, to address limitations in bilateral aid, donors use trust funds to pool funds for particular programs, and to tap into the capacities and systems of the trustee organization. This choice is made primarily for political reasons in order to direct aid to particular countries or issues. Large global funds are created typically at the initiative of high-level government officials [IEG 2011, p.vii].

Trust funds established to aid a single country generally are well adapted to the country's needs and conditions and work well in delivering aid aligned with a country's own planning and programming. In contrast, many global funds including funds that support national development efforts in multiple countries and those that finance the provision of regional or global public goods involve little or no recipient participation in their initiation and design (except for some of those structured as partnership programs). The support activities of global funds do not always align with priorities of individual country, as they are not necessarily well integrated into country programs [IEG 2011, p.ix].

Recipient officials find that the weaknesses, especially of global funds, have created difficulties for country planning and programming when they require redundant country plans and reports, impose eligibility criteria ill-suited to country conditions, decline to work through country systems, and fail to deploy their funds in a timely and predictable way.

Trust funds, especially MDTFs, may provide for strong coordination among participating donors. However they do not necessarily coordinate well with those outside the pool. Issue-focused funds do not necessarily align well with support for broader sector development. Overall, multidonor trust funds work better than single-donor funds in delivering both aid coordination and efficiency gains. The exception is those single-donor trust funds focused on a single country. Yet, even where trust funds have generated improved coordination, donors find trust fund coordination processes "too time-consuming" [IEG 2011, p.ix].

Basket funds/pooled funding. In this category of support, the donor contributes funds to an autonomous account, which is managed jointly with other donors and/or the recipient. The autonomous account will have specific purposes, modes of disbursement and accountability mechanisms, and exist for a limited time frame. Basket funds are characterized by common project documents, common funding contracts, and common reporting/audit procedures for all donors that will more or less correspond with the budgetary and other procedures in a recipient country[97].

Pooled funds can finance a whole sector program or, as is more common, can be earmarked to specific items of expenditure (e.g. medicines), or to specified sets of activities (e.g. the primary education sub-program).

Whether the accounting and reporting procedures are either modeled on: 1) government accounting systems, 2) on the accounting systems of a particular donor; 3) on the accounting systems of an international organization, or 4) can be custom-designed for the particular sector program[98].

They reduce the transaction costs for recipients by harmonizing the delivery of aid which would otherwise be delivered through a number of separate projects. They lower fiduciary risks in comparison to direct budget support (especially in the countries with weak public financial management systems). They result in greater efficiency in comparison to financing stand-alone projects. Finally, they help create preconditions for a transition to supporting systems via budget support [Williamson et al. 2008, pp.2-3]. (See Box 9.3)

However, Common funds do have some serious disadvantages.

First, the development of systems for supporting service delivery on a national basis with a common fund requires efforts similar to those needed to strengthen mainstream government systems. Common funds run the risk of confronting the same capacity constraints and weaknesses that are confronting the systems that they attempt to avoid.

Second, once common funds are created, they often, de facto, overshadow or even replace domestic delivery systems. As a result, the latter get little attention. Once created, this arrangement is difficult to dismantle and the transition towards the use of improved domestic systems may become permanently obstructed.

Third, common funds can focus the efforts for a lengthy period of several donors and the lead recipient country sector institution based solely on the design and management of the common fund.

Fourth, the establishment of common funds can have the effect of diverting attention away from vital sector policy issues, and the strengthening of mainstream systems.

Fifth, common funds can easily weaken domestic accountability systems. At important multi-stake-holder events, such as joint reviews, they can focus attention on the accountability demands of the funding modality itself, not contribute to the creation of a stronger domestic system.

Sixth, prescriptive guidelines on the use of common-fund resources can also conflict with the objectives of local government decentralization whenever these include a genuine devolution of resource-allocation decisions [Williamson et al. 2008, pp.2-3].

97 OECD-DAC. 2009. Reporting Directives for the Creditor Reporting System. Addendum on Types of Aid http://www.oecd.org/dataoecd/11/27/44479737.pdf p.5

98 European Commission. 2007. Support to Sector Programmes Covering the three financing modalities: Sector Budget Support, Pool Funding and EC project procedures. Short version. p.23. URL: http://ec.europa.eu/europeaid/how/delivering-aid/sector-approach/documents/europeaid_adm_guidelines_support_to_sector_prog_sep07_short_en.pdf

Some researchers question the justification with regard to common funds as transition mechanism to a more effective country service delivery. They point out that the common funds retain many features of the traditional project approach. At the same time common funds are typically much bigger and more complex operations for launching, delivery, and management and have detrimental effects on the coherence of policies and the strengthening of systems in the host country sector and therefore the outcome can be worse than before the approval of the common fund [Williamson et al. 2008, p.3].

Box 9.3. Use of common funds in Tanzania, Mozambique and Uganda

In Tanzania, the Primary Education Development Program (PEDP) emerged from the Education Sector Development Program but quickly outgrew this framework. It operates like a large project. This is especially evident in the way donor-pooled funds are released, monitored and audited. World Bank support to PEDP is disbursed through the government treasury but is clearly earmarked to a sub-sector within education.
In Uganda, the Joint Partnership Fund (JPF) uses a centralized project approach for delivering water supply systems in small towns. It helped to halt fragmentation of funding in the urban sub-sector and was more aligned with the urban department structure than previous projects. However, it does not use government systems beyond being reported in the budget and appearing on the agenda of the Ministry contracts committee.
In Mozambique, three common funds in the health sector were set up to align external financing better with sector strategies and national procedures. However, in practice these resulted in the development of new structures and procedures, and created mechanisms that potentially undermine national efforts to reduce transaction costs and to obtain a more integrated approach to health development in terms of execution, monitoring and auditing of funds.

Source: Williamson, Agha, 2008. p.3.

2.3. Project financing

A project is a set of inputs, activities and outputs, which are agreed upon with the partner country, for the purpose of reaching specific objectives/outcomes within a defined time frame with a defined budget and impacting a defined geographical area.

Project financing can be used by both bilateral and multilateral donors, but in most cases it is bilateral donors that provide it.

Project financing has the following specific features:

- Financing is linked to the achievement of clearly defined goals;
- Control over the design and the implementation of projects is exercised, in most cases, by Project Implementation Units (PIUs), which are accountable to the donor country;
- Donors control the disbursement of funds and accounting;
- Project funds often bypass the public institutions of the recipient countries and are not reflected in their public financial management systems; and

- Project funds are disbursed either through the public institutions or the NGOs of a donor country, multilateral organizations, INGOs, or (more rarely) through local NGOs[99].

Project financing was the most widespread aid modality over at least the three decades from the 1950s through the 1970s. Its prevalence was determined by both conceptual perceptions about development as such, and by the objective advantages that this aid modality brought to donors and recipients.

Donors identify the following advantages of project financing: the reduction of fiduciary risks through more rigid control over disbursements of funds; an increased accountability; the visibility of branded projects; the assist in defending the aid budget to their own parliamentary committees and audit authorities, and in defending the departmental budget within their agencies; and the enhancement of promotion prospects when a particularly large project can be presented as the work of an individual or a small team [Williamson et al. 2008, p.xiii].

Within *recipient governments*, project modalities with parallel funding and management mechanisms generate multiple material and non-material benefits for the ministers and the civil servants in whose sectors they are located, including salary top-ups, allowances, vehicles, training and travel opportunities and prestige. Ministers, parliamentarians and local authorities are interested in the political credit they receive for attracting a stand-alone project to a specific sector or area. The resource flows from a freestanding project are visible, reliable and relatively simple to control. Government officials of the recipient country in the sector or local government prefer to avoid the unpredictability, rigidities and reporting requirements associated with funding through the national budget and the reduced control this implies [Williamson et al. 2008, p. xviii].

However, evaluations of aid effectiveness have pointed to a number of well-known shortcomings of traditional project-based assistance:

1) Project assistance may miss the opportunity to support the process of institutional capacity building, in particular in budget planning and execution, accounting and procurement. By establishing parallel management structures, it may in fact undermine the capacity of the recipient governments to design and manage the development process;
2) Establishment of parallel PIUs that offer better salaries and working conditions leads to a "brain drain" from national ministries and agencies;
3) Different reporting and accounting requirements contribute to excessively high transaction costs, in particular in recipient countries with a large number of projects and donors;
4) A multitude of separate projects with different conditions and requirements for disbursement makes the size and timing of funding less predictable;
5) Results pursued by individual projects are limited and specific to the project. There is a narrow potential for achieving higher-level and long-lasting impacts that depend on sustaining activities beyond the scope of the individual project; and

99 In some cases project financing is provided through public institutions of recipient country, especially in the form of projects of national scale and technical assistance.

6) Implementation of projects managed by donors increases the aid fungibility; the implementation of large-scale projects in health or education can result in making decisions about the transfer of budget funds allocated for these purposes to other sectors, including the military [Koeberli and Stavreski 2006, p.4].

Hypothetically, the shortcomings of project financing can be minimized by the use of national procurement systems, cooperation with other donors and alignment with the priorities of partner recipient countries. However, donors historically have opted for this modality to bypass national systems, and it is extremely difficult for them to revisit and reconsider their approaches.

3. Project-based vs. program-based approach to development assistance

The problem of selection of aid modalities is directly related to the problem of selection of a general strategic approach to development assistance that can be either project-based or program-based.

During the 1950-1970s, the prevalence of project-based approach was incontestable. The efforts of donors were focused on the implementation of stand-alone projects which implied the use of standard organizational and managerial mechanisms of project financing. As early as the early 1980s, it became evident that this approach in Sub-Saharan Africa (the region which depended the most on foreign aid) had yielded low results. It was during this time that the IMF and the World Bank programs of structural adaptation were developed. The paradigm began to change. The share of projects in the ODA portfolio began to decline. For example, it dropped from 82 percent to 48 percent in the World Bank portfolio. The decline became even more noticeable after the donor community's attention shifted to the problems of ownership and alignment.

This gave impetus to the development of the "program-based approach" that donors began to implement since the mid-1990s. The Sector-Wide Approaches (SWAPs), initially implemented primarily in education and the health sector, became the first transitional form of PBAs. The term "PBA" appeared much later when donors raised the question about the development of national poverty reduction strategies and began to align their activities with the priorities outlined in the PRSPs.

Today the OECD-DAC defines **program-based approaches (PBAs)** as a way of engaging in development co-operation based on the principle of coordinated support for a locally owned program of development, such as a national poverty reduction strategy, a sector program, a thematic program or a program of a specific organization.

PBAs share the following features:

- Leadership by the host country or organization;
- A single comprehensive program and budget framework;
- A formalized process for donor co-ordination and harmonization of donor procedures for reporting, budgeting, financial management and procurement;

- Efforts to increase the use of local systems for program design and implementation, financial management, monitoring and evaluation[100].

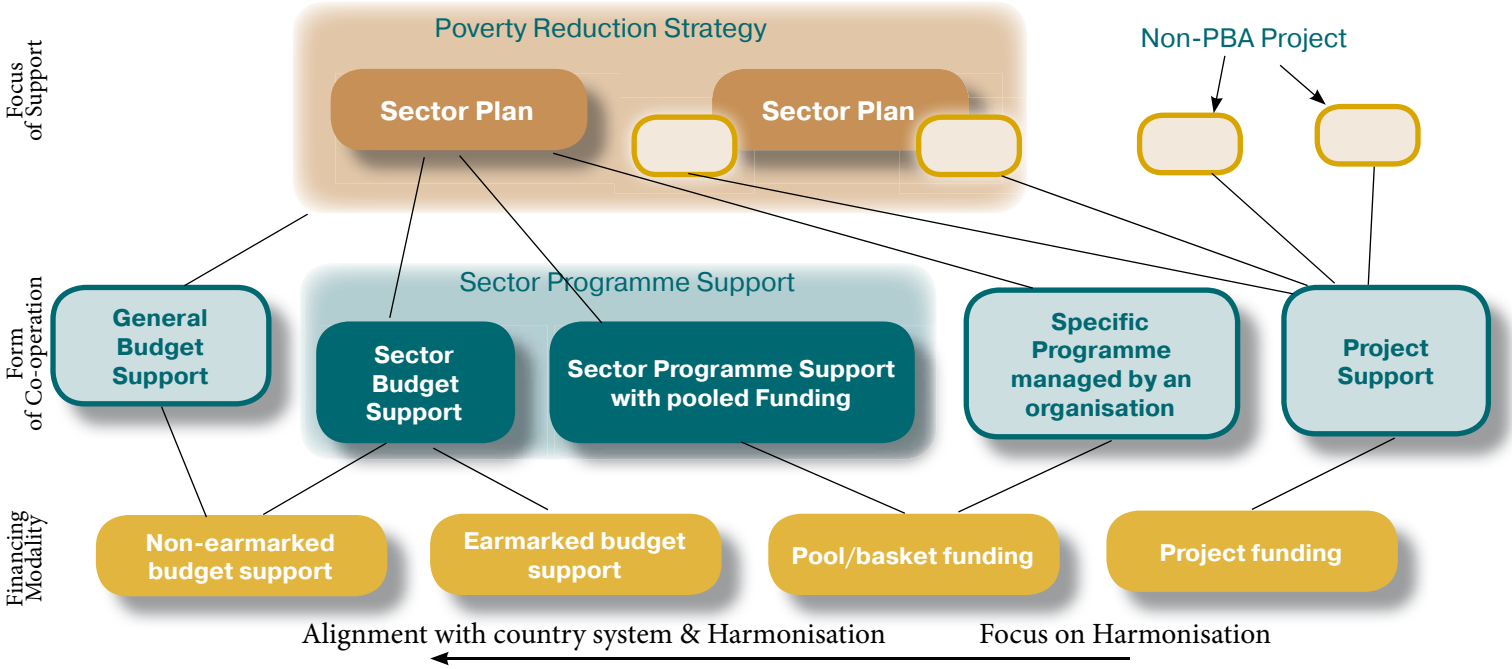
When working with PBAs, it is important to make a distinction between: a) the focus of the program; b) the financing modality used to support the program; and c) the form of cooperation or aid modality.

The focus of support relates to the objectives and expected results of the program supported by the donor partner. The program can either focus on the implementation of a partner country's Poverty Reduction Strategy (PRS) in its entirety or it can focus on a specific sector, subsector or policy area. In relation to non-governmental organizations, multilateral organizations or other organizations, the focus can either be on the overall program of the organization, e.g. its strategic plan, or on a specific program of that organization.

The **financing modality** is the way in which funds are channeled in support of the program. A program can be supported by different financing modalities. They include: general budget support; sector budget support; support of a sector program managed by an organizations and aligned with PRS/ sector plan; and support for projects aligned with PRS/ Sector plan.

Aid modalities; donors can support and implement program-based approaches across a range of aid and financing modalities, including budget support, pooled funding, trust funds and project financing, as long as the four PBA criteria above are fulfilled [Sida 2008, p.21-22]. (See Figure 9.1).

Figure 9.1. Types of Program-based Approaches[101]



Source: Sida. Guidance on Program-Based Approaches, 2008. URL: http://www.sida.se/Documents/Import/pdf/Guidance-on-Program-Based-Approaches.pdf p.26

100 OECD. 2006. "Harmonising Donor Practices for Effective Aid Delivery. Volume 2: Budget Support, Sector-wide Approaches and Capacity Development in Public Financial Management." DAC Guidelines and Reference Series. Paris: OECD Publishing. URL: http://www.oecd.org/dataoecd/53/7/34583142.pdf p.37

101 Sida. 2008. "Guidance on Program-Based Approaches." URL: http://www.Sida.se/Documents/Import/pdf/Guidance-on-Program-Based-Approaches.pdf p.26

The main advantage of the program-based approach in comparison with project financing is that it is a more comprehensive approach to development issues aimed at achieving long-term sustainable results.

A sector-wide approach. A sector-wide approach is a widespread form of a program-based approach operating at the level of an entire sector. A *sector development program (SDP)* is a specific, time-bound and defined cost set of actions and activities which support a sector strategy (i.e. the "single comprehensive program and budget framework" of a PBA, which incorporates both government and donor resources). Donors may have special terms for their own instruments that support a sector.

Development program (for example, the European Commission refers to its own instrument as a 'sector support program'). A sector can be defined differently. A sector can be the whole education system, or a primary education system. It is important to be clear, however, that neither a sector-wide approach nor a sector development program is an aid instrument.

A sector development program may be (and usually is) supported by a variety of aid instruments, including aid-funded projects, technical assistance, sector budget support and general budget support [OECD 2006, p.37].

However, SWAPs are entirely different from conventional project-based approaches. (See Table 9.1)

Table 9.1.What distinguishes a sector-wide approach from a conventional project-based approach?

Sector-wide approach	Conventional project-based approach
Country holistic view on entire sector	Focus on projects to support narrowly defined objectives
Partnerships with mutual trust and shared activities	Recipient accountable to donor
External partners' co-ordination and collective dialogue	Bilateral negotiations and agreements
Increased use of local procedures	Parallel implementation arrangements
Long-term capacity/system development in sector	Short-term disbursement and success of projects
Process-oriented approach through learning by doing	Blueprint approach

Source: OECD, 2006. p.36

The context for SWAps has become more favorable, but also more complex, with the advance of poverty reduction strategies, and coordinated action on a national scale to address systemic issues (including PFM and national capacities) that have previously been addressed within sectors. SWAps and sector development programs are often prominent in the areas that are stressed in PRSs: education, health, transport and agriculture. Ideally, a PRS should incorporate a coordinated and coherent set of sector development programs. [OECD 2006, p.37].

The key components of an effective SWAp are:

- A clear nationally-owned sector policy and strategy;
- A medium-term expenditure program that reflects the sector strategy;
- Systematic arrangements for programming the resources that support the sector;
- A performance monitoring system that measures progress and strengthens accountability;
- Broad consultation mechanisms that involve all significant stakeholders;
- A formalized government-led process for aid co-ordination and dialogue at the sector level; and
- An agreed process for moving towards harmonized systems for reporting, budgeting, financial management and procurement [OECD 2006, p.38].

Currently there is ambivalence about the process for the selection of PBAs. Verbally, donors have been showing commitment to the idea of a transition from project-based to program-based approaches. For example, the countries that signed the Paris Declaration in 2005 made a commitment to reduce by two-thirds the stock of parallel project implementation (PIUs)[102]. As for PBAs, the Paris Declaration clearly identified it as a way of operationalization of its key principles (ownership, alignment, harmonization, managing for results, and mutual accountability) and emphasized the need to implement SWAPs, as well as more advanced forms, primarily, direct budget support. Moreover, by 2010 donors had committed to provide 66 percent of aid as program-based[103].

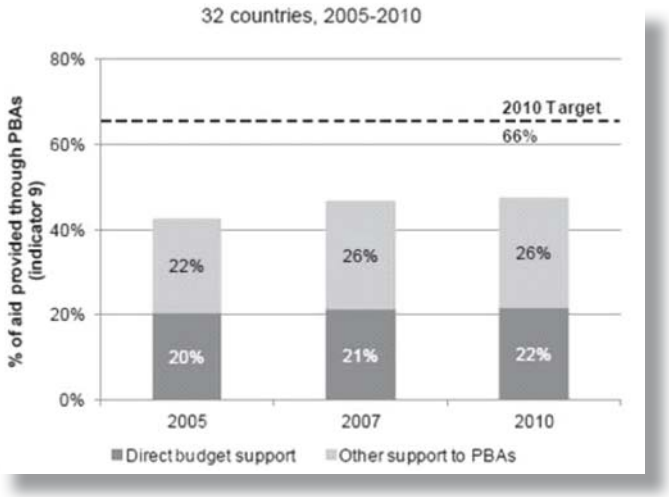
However, in spite of the emergence of a political consensus on the need to make a transition toward PBAs, the efforts that donors have been undertaking to meet their commitments cannot be considered to be sufficient. Monitoring conducted by the OECD-DAC in 2010 revealed quite low results. The 32 countries participating in both the 2006 and 2011 Surveys had a total of 1,696 parallel PIUs in 2005. This number fell to 1,158 in 2010. Some partner country governments mentioned that the use of PIUs can bring short-term advantages such as greater efficiency in disbursement and risk management. While several countries reported difficulties in making progress in this area, other countries have found ways to integrate parallel PIUs by making PIUs accountable to the recipient government rather than to donors or installing government-led PIUs with a common set of procedures. Other partner countries have introduced requirements for explicit government approval and clear evidence of exceptional circumstances for the use of parallel PIUs in their aid policies [OECD 2011, p.55]. Only 45 percent of aid captured in the 2011 Survey was provided in the context of a PBA. Direct budget support, which is one way of channeling aid in support of program-based approaches, accounted for almost half of all aid provided through PBAs. Its share of the total aid to the countries participating in the survey has remained constant since 2005[104].

102 OECD. 2008. "The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action." Paris: OECD Publishing. p.9 http://www.oecd.org/dataoecd/30/63/43911948.pdf

103 Ibid. p.10.

104 OECD. 2011. "Aid Effectiveness 2005–10: Progress in implementing the Paris Declaration." Paris: OECD Publishing. Pp.19, 63.

Figure 9.2. Proportion of aid provided in the context of program-based approaches (32 countries, 2005-10)



Source: OECD, 2011. p.63.

The statistics about the purest form of budget support, General Budget Support, is even more revealing. According to ODI estimates, it has hovered at under 2 percent of bilateral ODA, with the figure rising to 3 percent if multilaterals are included. The EC, the UK and Sweden are outliers on the upside, with figures closer to 20 percent. Many donors, however, including the US and Germany, have very low figures[105].

The gap between rhetoric and practice can be explained by different reasons – donors' unwillingness to assume additional political and fiduciary risks inherent to the implementation of PBAs, the weakness of government institutions in partner countries, and so on. However, it is not an impasse. It is clear that projects as an aid modality will never disappear, but its share in the gross ODA volumes can be reduced. One of promising ways of bridging the aforementioned gap is investing larger resources in monitoring and impact evaluation of aid, primarily delivered with the use of such financing modalities as direct budget support.

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The problem of selection of forms, financing modalities, and channels of aid delivery has become very urgent in recent years. This is explained by several reasons: donors' increased focus on aid effectiveness, transformation of the global aid architecture, and the mismatch between a real need to increase aid volumes, and budget restrictions caused by the global economic crisis. However, it is evident that any attempts of the donor community and development experts at defining generic, best-fit instruments are counterproductive.

On the one hand, harmonization remains an unreachable goal because of the approaches of individual donors whose preferences in the selection of aid modalities are determined by their strategic and political priorities and not related directly to the development needs of recipient of countries. On the other hand, the selection of channels of aid delivery

105 Budget Support Is Becoming an Endangered Species: What Busan Must Do to Save It. 28 August 2011. URL: http://www.simonmaxwell.eu/blog/budget-support-is-becoming-an-endangered-species-what-busan-must-do-to-save-it.html

and financing modalities can be made according to the institutional capacity of recipient countries and their ability to ensure an effective management of development aid inflows. These capabilities differ considerably among partner countries. In this respect, the most reasonable way to proceed is to abstain from trying to develop generic, one-size-fits-all approaches, and to implement an approach that takes the context as a starting point, and is aimed at using the complex of aid instruments adapted to local realities.

SELF-CHECK QUESTIONS

1. Please, describe the main forms of aid.
2. What are the main advantages and shortcomings of direct budget support?
3. What are the main advantages and shortcomings of core contributions to multilateral organizations?
4. What are the main advantages and shortcomings of multi-bilateral aid/ non-core contributions to funds and programs – for a donor country, for a multilateral organization, for a recipient country?
5. What are the main advantages and shortcomings of common funds? Why can not they be considered as a modality that prepares the conditions for an eventual transition to direct budget support?
6. What are the main advantages and shortcomings of project financing?
7. What distinguishes a sector-wide approach from a conventional project approach?
8. What are the main criteria for distinguishing between different initiatives implemented within a PBA?
9. What are the main features and components of an effective sector-wide approach?
10. What commitments related to the implementation of project-based and program-based approaches were made by donors in the Paris Declaration? Why were they not met?

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LECTURE №10

MONITORING AND IMPACT EVALUATION OF AID PROGRAMS

Lecture outline

1. Monitoring and impact evaluation: definition and objectives
2. Transition to results-based management
3. Evaluation: definitions and key challenges
4. Aid effectiveness: brief literature overview
5. Aid effectiveness: views of aid recipient countries
6. Impact evaluation methods

The increased focus on aid effectiveness requires that monitoring and impact evaluation assessments be conducted. Well-organized and well-designed development projects can become irrelevant if they do not result in significant improvement in the wealth of the local population. Therefore, monitoring and impact evaluation become key components of a successful development program cycle.

In order to achieve results it is necessary to develop a monitoring and impact evaluation strategy before the project is launched. In this respect monitoring and impact evaluation has been gaining in significance as part of the managing for development results framework. This lecture examines the practical aspects of these activities.

1. Monitoring and impact evaluation: definition and objectives

Monitoring can be defined as a continuing function that primarily aims to provide the management and main stakeholders of an ongoing intervention with early indications of progress, or lack thereof, in the achievement of results. An ongoing intervention might be a project, program or other kind of support to an outcome [UNDP 2002, p.6].

Evaluation is a selective exercise that attempts to systematically and objectively assess progress towards, and the achievement of, an outcome. Evaluation is not a one-time event. It is an exercise involving assessments of differing scope and depth carried out at several points in time in response to evolving needs for evaluative knowledge and learning during the effort to achieve an outcome. All evaluations—even project evaluations that assess relevance, performance and other criteria—need to be linked to outcomes as opposed to only the implementation or the immediate outputs [UNDP 2002, p.6].

The main objectives of today's results-oriented monitoring and evaluation are to:

1) Provide **feedback** on the implementation of programs and projects;
2) Support substantive **accountability** in use of public funds;
3) Provide **information to stakeholders**;
4) Analyze the **recipients' needs**; and
5) **Learn from experience** to make more informed decisions.

These objectives are linked together in a continuous process. Learning from the past contributes to more informed decision-making. Better decisions lead to greater accountability and also to improve performance. Partnering closely with key stakeholders throughout this process also promotes shared knowledge creation and learning, helps transfer skills, and develops the capacity for planning, monitoring and evaluation. Stakeholders also provide valuable feedback that can be used to improve performance and learning. A lesson learned is an instructive example based on experience that is applicable to a general situation rather than to a specific circumstance. The lessons learned from an activity through evaluation are considered *evaluative knowledge*, which stakeholders internalize and can use them in the implementation of other aid programs [UNDP 2002, p.6].

Monitoring and evaluation help improve *performance* and achieve results. The overall purpose of monitoring and evaluation is the measurement and assessment of performance in order to manage more effectively the outcomes and outputs known as development results. Today, the focus is on assessing the contributions of various factors to a given development outcome. Such factors include outputs and partnership with key stakeholders (policy advice and dialogue, advocacy and brokering/coordination) [UNDP 2002, p.5].

2. Transition to results-based management

The increased focus on achieving results facilitated the emergence of a new approach to monitoring and evaluation in the form of results-based management (RBM). RBM is a management strategy or approach by which an organization ensures that its processes, products and services contribute to the achievement of clearly stated results. Results-based management provides a coherent framework for strategic planning and management by improving learning and accountability. It is also a broad management strategy aimed at achieving important changes in the way agencies operate, with improving performance and achieving results as the central orientation, by defining realistic expected results, monitoring progress toward the achievement of expected results, integrating lessons learned into management decisions and reporting on performance [UNDP 2002, p.9-10].

Outcome monitoring

Outcome monitoring is regarded as the most effective method of monitoring. Kusek and Rist (2004) outline ten steps of conducting outcome monitoring as part of the monitoring and evaluation process.

Step One: Conducting a Readiness Assessment is the means of determining the capacity and willingness of the government and its development partners to construct a results-based M&E system. This assessment addresses such issues as the presence or absence of champions in the government, the barriers to building a system, who will own the system, and who will be the resistors to the system.

Step Two: Agreeing on Outcomes to Monitor and Evaluate addresses the key requirement of developing strategic outcomes that then focus and drive the resource allocation and activities of the government and its development partners. These outcomes should be derived from the strategic priorities (goals) of the country.

Step Three: Developing Key Indicators to Monitor Outcomes is the means of assessing the degree to which the outcomes are being achieved. Indicator development is a core activity in building an M&E system and drives all subsequent data collection, analysis, and reporting. Both the political and methodological issues in creating credible and appropriate indicators are not to be underestimated.

Step Four: Gathering Baseline Data on Indicators stresses that the measurement of progress (or not) towards outcomes begins with the description and measurement of initial conditions being addressed by the desired outcomes. Collecting baseline data means essentially to take the first measurements of the indicators.

Step Five: Planning for Improvements—Setting Realistic Targets recognizes that most outcomes are long term, complex, and not quickly achieved. Thus there is a need to establish interim targets that specify how much progress towards an outcome is to be achieved, in what time frame, and with what level of resource allocation. Measuring results against these targets can involve both direct and proxy indicators as well as the use of both quantitative and qualitative data.

Step Six: Monitoring for Results becomes the administrative and institutional task of establishing data collection, analysis, and reporting guidelines; designating who will be responsible for which activities; establishing the means of quality control; establishing timelines and costs; working through the roles and responsibilities of the government, the other development partners, and civil society; and establishing guidelines on the transparency and dissemination of the resulting information and analysis. It is stressed that the construction of an M&E system needs to address clearly the challenges of ownership, management, maintenance, and credibility.

Step Seven: Evaluative Information to Support Decision-making focuses on the contributions that evaluation studies and analyses can make throughout this process to assessing results and movement towards outcomes. Analysis of program theory, process evaluations, outcome and impact evaluations, and evaluation syntheses are but five of the strategies discussed that can be employed in evaluating a results-based M&E system.

Step Eight: Analyzing and Reporting Findings is a crucial step in this process, as it determines what findings are reported to whom, in what format, and at what intervals. This step has to address the existing capacity for producing such information as it focuses on the methodological dimensions of accumulating, assessing, and preparing analyses and reports.

Step Nine: Using the Findings emphasizes that the crux of the system is not in simply generating results-based information, but in getting that information to the appropriate users in the system in a timely fashion so that they can take it into account (as they choose) in the management of the government or organization. This step also addresses the roles of the development partners and civil society in using the information to strengthen accountability, transparency, and resource allocation procedures.

Step Ten: Sustaining the M&E System within Government recognizes the long term process involved in ensuring longevity and utility. There are six key criteria that are seen to be crucial to the construction of a sustainable system: demand, structure, trustworthy and

credible information, accountability, incentives, and capacity. Each of these dimensions needs continued attention over time to ensure the viability of the system [Kusek and Rist 2004].

3. Evaluation: definitions and key challenges

Summative evaluation is a study conducted at the end of an intervention (or a phase of that intervention) to determine the extent to which anticipated outcomes were produced.

Summative evaluation is intended to provide information about the worth of the program.

An operational evaluation seeks to understand whether implementation of a program unfolded as planned. Specifically, operational evaluation is a retrospective assessment based on initial project objectives, indicators, and targets from the M&E framework. Therefore, an operational evaluation makes it possible to get information about the ability of a program to achieve anticipated outcomes.

Formative evaluation is complementary to summative evaluation. Its goal is to ensure that the program will achieve anticipated outcomes. The practice of conducting formative evaluation should be used by management at each stage of project cycle. A focus on increasing effectiveness is put both at the beginning and during the project cycle.

Prospective evaluation, as formative evaluation, is also optional and can be carried out before a program is launched. The objective of this evaluation is to assess the advisability of the implementation and evaluation of the program/project and to understand if the prospective outcomes are worth the costs and inputs.

The implementation of such assessment has three components: 1) analysis of goals and anticipated outcomes of a program; 2) review and synthesis of related programs; 3) providing such an assessment of the prospective positive and negative consequences of program implementation.

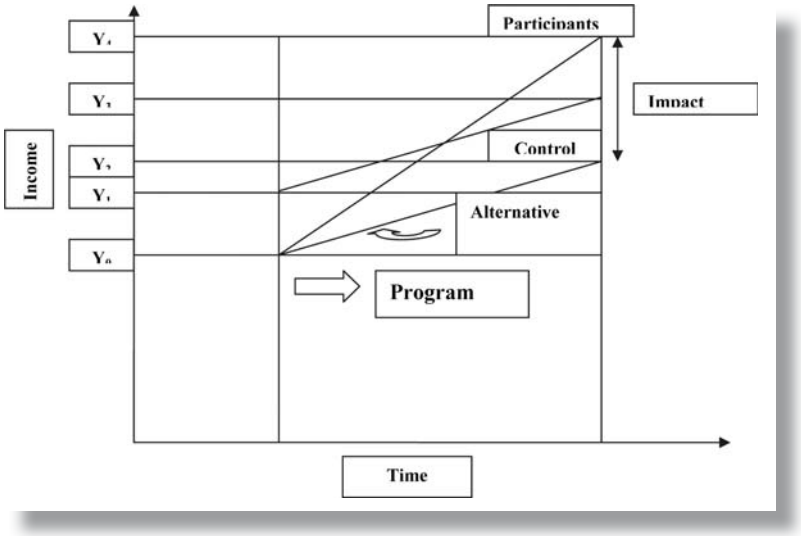
The Problem of the Counterfactual [World Bank 2010, p.22-24].

The main challenge of an impact evaluation is to determine what would have happened to the beneficiaries if the program had not existed. Does this change relate directly to the intervention?

The problem of evaluation is that while the program's impact (independent of other factors) can truly be assessed only by comparing actual and counterfactual outcomes, the counterfactual is not observed. So the challenge of an impact assessment is to create a convincing and reasonable comparison group for beneficiaries in light of this missing data.

Ideally, one would like to compare how the same household or individual would have fared with, and without, an intervention or "treatment". But one cannot do so because at any given point in time a household or an individual cannot have two simultaneous existences—a household or an individual cannot be in the treated and the control groups at the same time. Finding an appropriate counterfactual constitutes the main challenge of an impact evaluation.

Figure 10.1. Problem of the Counterfactual.



Source: World Bank, 2010. p.34.

Consider the case of Grameen Bank's beneficiaries in Bangladesh. Grameen Bank offers credit to poor women to improve their food consumption. Empirical evidence reveals, however, that the per capita consumption among program participants is lower than that of nonparticipants prior to program intervention. Is this a case of failure of the Grameen Bank program? Not necessarily. Grameen Bank targeted poor families because they had lower per capita food consumption to begin with, so judging the program's impact by comparing the food consumption of program participants with that of nonparticipants is not valid .

What is needed is to compare what would have happened to the food consumption of the participating women had the program not existed. A proper comparison group is needed that is a close counterfactual to program beneficiaries.

Consider the income of Grameen Bank participants after program intervention as Y4 and the income of nonparticipants or control households as Y3. This with-and-without group comparison measures the program's effect as Y4 – Y3. Is this measure a right estimate of program effect? Such a comparison could be deceptive without knowing why some households participated while others did not when a program such as Grameen Bank made its credit program available in a village. Without such information, one does not know whether Y3 is the right counterfactual outcome for assessing the program's effect. For example, if incomes are different across the participant and control groups before the program, this differential might be due to underlying differences that can bias the comparison between the two groups. If one knew the counterfactual outcomes (Y0, Y2), the real estimate of program effect is Y4 – Y2, as figure 10.1 indicates, and not Y4 – Y3. In this example, the counterfeit counterfactual yields an underestimate of the program's effect.

Outcome evaluation vs. formative evaluation

Policy makers may decide whether to carry out an impact evaluation on the basis of the following criteria:

1) The program intervention is innovative and of strategic importance; and
2) The impact evaluation exercise contributes to knowledge of what works and what does not. (Data availability and quality are fundamental requirements for this exercise) [World Bank 2010, p.19].

4. Aid effectiveness: brief literature overview

There are several theoretical approaches to evaluation of the impact of aid interventions.

For example, D. Easterly thought that foreign aid is a priori ineffective. It is a better situation when the markets are allowed to do their job.

The focus on whether aid improves GDP growth can be traced back to the two-gap model (Chenery and Strout, 1966), which remains the most influential theoretical underpinning of the aid effectiveness literature. In this model, developing countries face constraints on savings and export earnings that hamper investment and economic growth. Aid flows are meant to fill the gap between investment needs and domestic savings. Even though this model has been the target of severe criticism almost since its inception, it has provided the underlying principles both for early aid policies (Easterly 1999) and for the regression analyses of most empirical papers, which focused on the relationships between aid-growth and aid-savings. Most early authors concluded that aid had no significant impact on growth, savings or investment. Aid was shown to increase unproductive public consumption (Mosley and others, 1992) and to fail to promote investment. The latter point was supported by Boone (1996) and Reichel (1995) who found a negative relationship between savings and aid, and pointed to a substitution effect. Finally, Burnside and Dollar showed that aid can be effective when policies are good [Massud and Yontcheva 2005, p.4].

A main problem of providing assistance, however, lies not in low returns on inputs, but in the absence of real systemic transformation, i.e. real change. The most difficult questions are: What exactly should be evaluated? Why did systemic changes occur? How could the impacts of aid be measured? All these questions are a real challenge for specialists. In this respect, it is important to mention the work of the Joint UNICEF/ Eurostat/ OECD Working Group on Statistics for Sustainable Development, established in 2005[106]. The Group received a mandate to create development indicators that would measure the impact of development aid. The group included 90 representatives from 48 countries and international institutions.

Unanticipated consequences of program implementation.

Unanticipated consequences of program implementation can be positive and negative. The impacts of aid are not heterogeneous. For example, if the program is aimed at providing assistance to the poorest population, then two question arise: Does it meet the demands of target groups? Who receives aid – the poor or the poorest population?

Given the probability of unanticipated consequences, donors need to take additional measures to control both negative and positive consequences. Another problem is the efficiency of financial management. How to minimize the risk of negative consequences and ensure that implementation of a program benefits the target group?

106 Joint UNECE/OECD/EUROSTAT Working Group on Statistics for Sustainable Development. URL: http://www.unece.org/stats/groups/wgssd.tor.htm

5. Aid effectiveness: views of aid recipient countries

The question of aid effectiveness cannot be examined without taking into account the views of aid recipients. The position of the aid recipient is important both at the design stage when the decision is made about the advisability of program implementation, when the conformity between the program goals and the recipient countries' development needs is determined, and at the stage of evaluation of outcomes and assessment of the long-term impact of an intervention.

The increasing effectiveness of aid to developing countries are outlined in the Accra Agenda For Action. According to the agenda, all signatories reaffirmed their earlier commitments made in the Paris Declaration. According to the Accra Agenda, the progress can be achieved through strengthening country ownership over development; building more effective and inclusive partnerships for development; and delivering and accounting for development results.

1. *Strengthening country ownership* over development implies more active and efficient management of development policies in partner countries in collaboration with national parliaments and civil society. To achieve this goal signatories to the Accra Agenda for Action agreed to broaden country-level policy dialogue on development: (a) Developing country governments will work more closely with parliaments and local authorities, and civil society organizations (CSOs) in preparing, implementing and monitoring national development policies and plans; b) Donors will support efforts to increase the capacity of all development actors – parliaments, central and local governments, CSOs, research institutes, media and the private sector – to take an active role in dialogue on development policy and on the role of aid in contributing to countries' development objectives; c) Developing countries and donors will ensure that their respective development policies and programs are designed and implemented in ways consistent with their agreed international commitments on gender equality, human rights, disability and environmental sustainability.

2. *Building More Effective and Inclusive Partnerships for Development.* Such partnerships are most effective when they fully harness the energy, skills and experience of all development actors—bilateral and multilateral donors, global funds, CSOs, and the private sector. To achieve this goal it was agreed to: a) to reduce the fragmentation of aid by improving the complementarily of donors' efforts and the division of labour among donors, including through improved allocation of resources within sectors, within countries, and across countries; b) increase aid's value for the money donors commit through encouraging donors to fully untie their aid; c) work with all development actors – bilateral and multilateral, global funds, CSOs, and the private sector; d) deepen engagement with civil society organizations; and e) adapt aid policies for countries in fragile situations.

3. *Delivering and Accounting for Development Results* is also important, since greater transparency and accountability for the use of development resources, domestic as well as external,, are powerful drivers of progress.

In order to achieve these goals it was agreed to: a) focus on delivering results by strengthening the quality of policy design, implementation and assessment by improving information systems; b) increasing accountability and transparency to publics for results;

c) continue to change the nature of conditionality to support ownership; and d) increase the medium-term predictability of aid to strengthen planning processes for managing domestic and medium-term resources in developing countries[107].

The international community pays great attention to the issue of aid effectiveness. A significant contribution to understand this issue is made by the International Aid Transparency Initiative (IATI).

6. Impact evaluation methods

Aid interventions can be implemented according to the following scheme: a) engaging key stakeholders; b) designing assessment; c) planning activities; and d) planning cost and resources.

Engaging stakeholders

Involving partners and stakeholders is a precondition for knowing their opinions on the direct outputs and long-term outcomes of a program for those individuals that are directly affected. The stakeholders can include a wide range of actors, such as public institutions, local authorities, non-commercial organizations, private corporations, and local inhabitants of the region where the project is implemented. The outcome evaluation is one of the sources of getting necessary information to conduct qualitative and quantitative assessments. The stakeholders' opinions have to be taken into account to avoid making the same mistakes when designing future programs.

Design

An important element of conducting impact evaluation is the selection of the most adequate method of assessment. In order to choose the method it is necessary to take into account the previous experiences of assessing similar development programs. One program can be assessed using different methods because they are not mutually exclusive.

Minimum requirements for planning for evaluation

Country offices may integrate their results-oriented monitoring and evaluation planning into existing systems and structures in any number of ways. Nevertheless, as a minimum for planning, offices should:

1. Plan monitoring and evaluation simultaneously: Evaluation is an important monitoring tool. Monitoring is an important input to evaluation. Because they are so interrelated, it is recommended that country offices plan monitoring and evaluation processes together at the same time.
2. Capture results (outcome and outputs): Meaningful information about outcomes and outputs needs to be captured, regardless of the unit of analysis used by a monitoring and evaluation plan (e.g. outcomes, outputs, projects, activities, themes, areas).
3. Develop an evaluation plan: An evaluation plan covers outcomes for the Country Program period. All operating units and offices prepare a mandatory evaluation plan within the first quarter of each Country Program cycle. This is a key element in performance assessment.

107 OECD. 2008. "The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action." OECD Publishing, Paris. p.9 http://www.oecd.org/dataoecd/30/63/43911948.pdf

4. Base planning on a strategic choice: Planning is not primarily about scheduling (the timing and selection of tools); it is about determining the best approach depending on the needs and the nature of what is being monitored or evaluated [UNDP 2002, p.24].

It is necessary to revisit the evaluation design and scope in case conditions for evaluation change (budget or resource cuts).

Methods of impact assessments are divided into 2 large categories: quantitative and qualitative.

The **quantitative** methods are divided into experimental and non-experimental (quasi-experimental) designs.

Experimental methods are based on randomized control designs – a random selection of potential beneficiaries' into a control group or the experimental group. In this case there should be no differences between two groups' conditions apart from one group being affected by the program and having access to its outcomes and the other not.

Non-experimental methods *are matching methods or constructed controls*, in which one tries to pick an ideal comparison that matches the treatment group from a larger survey. The most widely used type of matching is *propensity score matching*, in which the comparison group is matched to the treatment group on the basis of a set of observed characteristics or by using the "propensity score" (predicted probability of participation given observed characteristics); the closer the propensity score, the better the match.

Double difference or difference-in-differences methods are ones in which one compares a treatment and comparison group (first difference) before and after a program (second difference). Comparators should be dropped when propensity scores are used and if they have scores outside the range observed for the treatment group.

Instrumental variables or statistical control methods in which one uses one or more variables that matter to participation but not to outcomes given participation. This identifies the variation in outcomes attributable to the program, recognizing that its placement is not random but purposive. The "instrumental variables" are first used to predict program participation; then one sees how the outcome indicator varies with the predicted values.

Reflexive comparisons are those in which a baseline survey of participants is done before the intervention and a follow-up survey is done afterwards. The baseline provides the comparison group, and impact is measured by the change in outcome indicators before and after the intervention [Baker 2000, p.6-7].

Qualitative techniques are also used also for carrying out an impact evaluation with the intent to determine impact by the reliance on qualitative methods of analysis. The focus instead is on understanding processes, behaviors, and conditions as they are perceived by the individuals or groups being studied. For example, qualitative methods and particularly participant observation can provide insight into the ways in which households and local communities perceive a project and how they are affected by it. Qualitative designs have generally been used in conjunction with other evaluation techniques, as the qualitative approach uses relatively open-ended methods during design, collection of data, and analysis. Qualitative data can also be quantified. And quantitative data can be

easily analyzed. Among the methodologies used in qualitative impact assessments are the techniques developed for rapid rural assessment, which rely on participants' knowledge of the conditions surrounding the project or program being evaluated, or participatory evaluations in which stakeholders are involved in all stages of the evaluation—determining the objectives of the study, identifying and selecting indicators to be used, and participating in data collection and analysis [Baker 2000, p.7].

The benefits of qualitative assessments are that they are flexible, can be specifically tailored to the needs of the evaluation using open-ended approaches, can be carried out quickly using rapid techniques, and can greatly enhance the findings of an impact evaluation through providing a better understanding of stakeholders' perceptions and priorities and the conditions and processes that may have affected program impact [Baker 2000, p.7-8].

Other evaluation methods

Other evaluation methods include: theory-based evaluations and cost-effectiveness analyses.

Theory-Based Evaluation. The premise of theory-based evaluations is that programs and projects are based on explicit or implicit theories about how and why a program will work. The evaluation would then be based on assessing each theory and the assumptions made about a program during implementation rather than at a midpoint. Evaluation will be based on implementing each element taken from the evaluation theoretical model. Theories direct the evaluator's attention to likely types of near-term and longer-term effects. First, among the advantages of theory based evaluations are that the evaluation provides early indications of program effectiveness during project implementation. If there are breakdowns during implementation, it is possible to fix them along the way. Second, the approach helps to explain how and why effects occurred. If events work out as expected, the evaluation can say with a certain level of confidence how the effects were generated [Baker 2000, p.12-13].

Cost-benefit or cost-effectiveness analysis. While this type of analysis is not strictly concerned with measuring impact, it enables policymakers to measure program efficiency by comparing alternative interventions on the basis of the cost of producing a given output. It can greatly enhance the policy implications of the impact evaluation, and therefore should also be included in the design of any impact evaluation.

Quantitative impact evaluations

There are two types of quantitative impact evaluations: ex post and ex ante evaluations.

An ex *ante impact evaluation* attempts to measure the intended impacts of future programs and policies, given a potentially targeted area's current situation, and may involve simulations based on assumptions about how the economy works. Many times, ex ante evaluations are based on structural models of the economic environment facing potential participants. The underlying assumptions of structural models, for example, involve identifying the main economic agents in the development of the program (individuals, communities, local or national governments), as well as the links between the agents and the different markets in determining outcomes from the program. These models predict program impacts [World Bank 2010, p.20].

Ex post evaluations, in contrast, measure actual impacts accrued by the beneficiaries that are attributable to program intervention. One form of this type of evaluation is the treatment effects model. Ex post evaluations have immediate benefits and reflect reality. These evaluations, however, sometimes miss the mechanisms underlying the program's impact on the population which structural models aim to capture and which can be very important in understanding program effectiveness (particularly in future settings). Ex post evaluations can also be much more costly than ex ante evaluations because they require collecting data on actual outcomes for participant and nonparticipant groups, as well as on other accompanying social and economic factors that may have determined the course of the intervention. An added cost in the ex post setting is the failure of the intervention, which might have been predicted through ex ante analysis [World Bank 2010, p.21].

One approach is to combine both analyses and compare ex post estimates with ex ante predictions. This approach can help explain how program benefits emerge, especially if the program is being conducted in different phases and has the flexibility to be refined from added knowledge gained from the comparison [World Bank 2010, p.21].

Quantitative versus Qualitative Impact Assessments

Governments, donors, and other practitioners in the development community are keen to determine the effectiveness of programs with far-reaching goals such as lowering poverty or increasing employment. Policy decisions are often possible only through impact evaluations based on hard evidence from survey data or through related quantitative approaches.

Qualitative information such as understanding the local sociocultural and institutional context, as well as program and participant details is, however, essential to a sound quantitative assessment [World Bank 2010, p.18-19].

Advantages and disadvantages of quantitative impact assessments

The quantitative impact assessments have some unquestionable advantages: a) the use of statistical data; b) the possibility to conduct a more detailed analysis with the help of mathematical instruments; 3) the possibility to understand empirically the target groups' behavior. Qualitative information can help identify mechanisms through which programs might be having an impact; such surveys can also identify local policy makers or individuals who could be important in determining the course of how programs are implemented, thereby aiding an operational evaluation.

But a qualitative assessment on its own cannot assess outcomes against relevant alternatives or counterfactual outcomes. It cannot really indicate what might have happened in the absence of the program. This analysis can be conducted only with the help of qualitative impact assessment. Quantitative analysis is also important in addressing potential statistical bias in program impacts.

A mixture of qualitative and quantitative methods (a mixed-methods approach) might therefore be useful in gaining a comprehensive view of the program's effectiveness. The

selection of methods will depend on the objectives of the analysis. For example, qualitative methods can be more effective in analyzing the behavior of the key stakeholders and key recipients of the program outcomes.

The use of both quantitative and qualitative impact assessments provides more opportunities to get feedback that can facilitate the interpretation of the outcomes.

Lessons Learned.

Example 1: Mixed Methods in Quantitative and Qualitative Approaches: Jamaica Social Investment Fund.

Rao and Ibáñez applied quantitative and qualitative survey instruments to study the impact of the Jamaica Social Investment Fund. Program evaluators conducted semi-structured in-depth qualitative interviews with JSIF project coordinators, local government and community leaders, and members of the JSIF committee which helped implement the project in each community. This information revealed important details about social norms which were influenced by historical and cultural factors that guided communities' decision-making and therefore the way the program ultimately played out in targeted areas. These interviews also helped in matching communities, because focus groups were asked to identify nearby communities that were most similar to them.

Qualitative interviews were not conducted randomly, however. As a result, the qualitative interviews could have involved people who were more likely to participate in the program, thereby leading to a bias in understanding the program impact. A quantitative component to the study was therefore also included. Specifically, in the quantitative component, 500 households (and, in turn, nearly 700 individuals) were surveyed, split equally across communities participating and not participating in the fund. Questionnaires covered a range of variables, including socioeconomic characteristics, details of participation in the fund and other local programs, perceived priorities for community development, and social networks, as well as ways a number of their outcomes had changed relative to five years ago (before JSIF began).

Propensity score matching was used to compare outcomes for participating and nonparticipating households. Matching was conducted on the basis of a poverty score calculated from national census data. Separate fieldwork was also conducted to draw out additional, unmeasured community characteristics on which to conduct the match. This information included data on local geography, labor markets, and the presence of other community organizations.

The qualitative data therefore revealed valuable information on the institutional context and norms guiding behavior in the sample, whereas the quantitative data detailed trends in poverty reduction and other related indicators [World Bank, 2010, p.20].

Example 2. PROGRESA school subsidy experiment in Mexico (An Example of an Ex Ante Evaluation)

Todd and Wolpin applied an ex ante approach to evaluation, using data from the PROGRESA (now Oportunidades) school subsidy experiment in Mexico. Using an economic model of household behavior, they predicted impacts of the subsidy program on the proportion of children attending school. The predictions were based only on children from the control group and calculated the treatment effect from matching control group children from households with a given wage and income with children from households where wages and income would be affected by the subsidy.

Predictions from this model were then compared with ex post experimental impacts (over the period 1997–98) measured under the program. Todd and Wolpin found that the predicted estimates across children 12 to 15 were similar to the experimental estimates in the same age group. For girls between 12 and 15, they found the predicted increase in schooling to be 8.9 percentage points, compared with the actual increase of 11.3 percentage points. For boys, the predicted and experimental estimates were 2.8 and 2.1 percentage points, respectively. The ex ante evaluation they conducted also allowed them to evaluate how outcomes might change if certain parameters were altered. An ex ante assessment could also describe the potential range of impacts from the program, which could help in ultimate targeting ex post [World Bank, 2010, p.21].

SELF-CHECK QUESTIONS

1. What are the main approaches to impact evaluation in the sphere of international development assistance?
2. What are the main objectives of monitoring and evaluation of aid programs?
3. Please, describe the differences between formative, summative, and prospective assessments.
4. Please, name the main challenges of outcome evaluation. What is the main problem in using counterfactuals?
5. Please, name the main effects of aid.
6. Please, describe the main advantages and disadvantages of qualitative/quantitative impact assessments.
7. What is the difference between ex-ante and ex-post assessments?
8. What is a counterfactual?
9. What are the main steps in monitoring and impact evaluation?
10. What is double difference or difference-in-differences?
11. What is specific about quantitative methods of assessment?
12. What are the main qualitative methods of assessment?
13. What are the main provisions of the Accra Agenda for Action?
14. What are the main goals and objectives of results-based management?
15. What is specific about theory-based evaluations?

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LECTURE №11

SPECIFICS OF PROVIDING ASSISTANCE TO FRAGILE STATES

Lecture outline

1. **Evolution of basic principles of engagement in fragile states**
2. **Risk analysis, prioritization, sequencing**
3. **Choosing modalities and channels of aid delivery**
4. **Defining scope and timeframe of engagement**
5. **Coordination: whole-of-government and whole-of-system approaches**

One of the major recent trends in the sphere of international development assistance is the increased focus of donors on fragile states – "countries where state institutions are unable or unwilling to carry out its basic functions and lack legitimacy". Such countries were long regarded as difficult partners and were "cut off" from aid flows. Eventually, however, the donors had to revisit their approaches. This was caused, in one part, by 9/11 which resulted in the firm conclusion that weak states were sources of transnational threats. There was also a body of evidence that by the mid-2000s fragile states were clearly lagging behind in achieving the MDGs. Currently all multilateral organizations – the UN, the OECD, the World Bank, the IMF, multilateral development banks, and large donor countries have specific strategies for engagement in fragile states. Although there is no universally accepted definition of the term "fragile states" or a unified list of fragile states, the donor community reached a consensus on fragile states which is based on three key assumptions:

1) weak governance and conflicts are the pivotal development challenges and obstacles to achieving the MDGs;
2) state-building and peace-building are the keys to overcoming fragility;
3) traditional mechanisms of aid delivery do not work in fragile states; that is why innovative approaches are needed.

This lecture examines the most important specific challenges of providing development assistance to fragile states.

1. Evolution of basic principles of engagement in fragile states

The problem of providing assistance to the states with weak public institutions, often affected by conflict and violence, was always related to the problem of managing risk that manifests itself in a very peculiar way in these countries.

The OECD-DAC identifies three categories of risks with which any donor has to deal. The first category is contextual risks (risks of state failure, renewal of hostilities, emergence of a humanitarian crisis) that the external actors can barely control but that can be minimized by the efficient aid programs. The second category is composed of programmatic risks – (1) the potential for an aid program to fail to achieve its objectives; and (2) the potential for

the program to cause harm in the external environment. The third category is composed of institutional risks, including operational security, financial and fiduciary, and reputational [OECD 2011a, p.24-27].

These risks are interdependent. For instance, setting very modest objectives for interventions by donors will succeed in minimizing project risk but will reduce also the likelihood that the engagement by the donor will succeed in reducing the development risks facing the country. Similarly, a donor's choice of aid instruments can help limit institutional risks but may simultaneously undermine the capacity and visibility of the state in deliv¬ering services itself, which reduces its legitimacy in the eyes of its citizens [Chandy 2011, p.90].

The provision of assistance to "bad performers" that do not comply with good governance standards was always associated with significantly higher risks: a higher probability of program failure due to the instability of the political situation; a higher risk of doing harm; the real threat to the lives of those who implement a program on the ground; higher fiduciary risks due to the prevalence of corruption; and higher reputational risks for supporting repressive regimes. For all these reasons the donor community treated these countries as "difficult partnerships". Historically donors have sought to limit the extent of their engagement. The early, "standard" approach to the poorly governed countries was based upon the following principles:

1) providing less money;
2) an orientation toward project financing;
3) making shorter time commitments;
4) engaging in a narrower set of activities;
5) distributing aid through NGOs (and bypassing the state); and
6) providing humanitarian aid with only later making a subsequent shift towards development aid. This approach was revisited and reconsidered only in the mid-2000s[108].

The implementation of such an approach caused a higher volatility and fragmentation of aid to difficult partners, increased pressure on already weak institutions, and often exacerbated the problems that they were confronting.

Therefore, after the emergence of a political consensus that regarded institutional weakness not only as an obstacle to aid delivery but also as a threat to international security and a development challenge in its own right as well, donors drew two important conclusions: 1) the "standard" approach to difficult partners hampers achievement of the main goal – institution building; and 2) Paris Declaration principles can not be applied automatically to all fragile states. These two conclusions resulted in the adoption of ten Principles of Good International Engagement in Fragile States by the OECD-DAC in 2007. These ten principles later were reflected in the Accra Agenda for Action. Donors agreed that in designing aid strategies and programs for fragile states they will seek to:

1) Take context as the starting point;
2) Ensure all activities do no harm;
3) Focus on statebuilding as the central objective;
4) Prioritize prevention;

108 Radelet, Steve. 2004. "Aid Effectiveness and the Millennium Development Goals". Washington, D.C.: Center for Global Development, p.1

5) Recognize the links between political, security and development objectives;
6) Promote non-discrimination as a basis for inclusive and stable societies;
7) Align with local priorities in different ways in different contexts;
8) Agree on practical co-ordination mechanisms between international actors;
9) Act fast…but stay engaged long enough to give success a chance;
10) Avoid pockets of exclusion ("aid orphans")[109] .

These principles became a cornerstone for the policies of the established donors that began in 2009 to monitor their implementation in particular countries. The same year the International Dialogue on Peacebuilding and Statebuilding (IDPS) was established by the OECD-DAC[110] within the International Network on Conflicts and Fragility (INCAF). In April 2010 in Dili, the capital of Timor-Leste, seven fragile states established the "g7+" grouping that now comprises already 18 countries[111] with population of more than 350 million. In the last two years IDPS has produced three formal Declarations 1) the "Dili Declaration" of April 2010, with an important "Statement by the g7+" in an annex; 2) The "Monrovia Roadmap" of July 2011; and 3) The "New Deal for Engagement in Fragile States" of December 2011.

The **Dili Declaration** entitled "New Approach to Peacebuilding and Statebuilding" emphasized the need to come up with more effective solutions to the problems of conflict and fragility from the perspective of achieving MDGs. The g7+ Statement for the first time ever outlined the commitments of fragile states' governments with respect to their citizens[112].

The **Monrovia Roadmap** fundamentally presents the consensual agreement around five peacebuilding and statebuilding objectives held to be necessary to reduce and prevent conflict and human suffering and to reach the MDGs in situations of conflict and fragility: legitimate politics; security; justice; economic foundations; and revenues and services[113].

Finally, **New Deal for Engagement in Fragile States**, endorsed by 14 recipient countries, 21 OECD members (except for Greece and South Korea) and multilateral organizations (AfDB, ADB, the EU, OECD, UNDP, and the World Bank). The New Deal reaffirms the Peacebuilding and Statebuilding Goals (PSGs) as articulated in the Monrovia Roadmap, and now also signals that these will need full re-consideration in the discussions to revisit the post-MDG development framework beyond 2015. It then organizes the commitments under two acronym headings: FOCUS and TRUST.

FOCUS refers to new ways of engaging to support inclusive country-led and country-owned transitions out of fragility. Key components of this are:

1) A periodic "fragility assessment", a diagnostic tool which is still to be developed;
2) A one national vision and one plan;

109 OECD-DAC. 2007. "Principles for Good International Engagement in Fragile States & Situations." OECD Publishing, Paris. URL: http://www.oecd.org/dataoecd/61/45/38368714.pdf

110 IDPS (International Dialogue on Peacebuilding and State-building). URL: http://www.oecd.org/site/0,3407,en_21571361_43407692_1_1_1_1_1,00.html

111 Afghanistan, Burundi, Chad, Central African Republic, Côte d'Ivoire, Comoros, DRC, Guinea, Guinea-Bissau, Haiti, Liberia, Papua-New Guinea, Sierra Leone, Solomon Islands, Somalia, Southern Sudan, Timor-Lester, Togo.

112 IDPS. 2010. "Dili Declaration. A New Vision for Peacebuilding and Statebuilding and Annex: Statement by the g7+".IDPS, Dili. URL: http://www.oecd.org/dataoecd/12/30/44927821.pdf

113 IDPS. 2010. "The Monrovia Roadmap on Peacebuilding and Statebuilding". IDPS, Monrovia. URL: http://www.oecd.org/dataoecd/23/24/48345560.pdf

3) A "compact" to implement that one vision and one plan – the definition of "compact" is still to be agreed upon, after which policy guidance on its use can be developed and perhaps peer review mechanisms created and elaborated;
4) The use of PSGs to monitor country-level progress; and
5) Support for credible and inclusive processes of political dialogue, and the building of the capacity of governments and civil society leaders and institutions to lead peacebuilding and statebuilding efforts.

TRUST covers a series of commitments for results. Key components of this are:
1) Transparency, which will also require more support to domestic oversight mechanisms, including national parliaments;
2) Risk sharing rather than risk-aversion, with joint risk-assessment and risk-management;
3) Use and strengthening of country systems (i.e. public sector systems);
4) Strengthening of capacities, with a greater proportion of available funding allocated to this; and
5) Timely and more predictable aid, including simplified financial management and procurement procedures to improve the speed and flexibility of aid delivery, and greater predictability of aid[114].

Relevant indicators will be elaborated for each of the ten goals and presented to the UN General Assembly. The New Deal will be piloted in Afghanistan, the Central African Republic, DRC, Liberia, Sierra Leone, South Sudan, and Timor-Leste with financial support from Australia, Denmark, Netherlands, Sweden, the UK and the US.

The gradual progress of the international community toward adoption of innovative principles of engagement in fragile states culminated in the Outcome Document of the Fourth High Level Forum in Busan (December 2011). The Outcome Document in paragraph 26 refers explicitly to the New Deal, with its Peacebuilding and Statebuilding Goals and its proposed commitments summarized under the acronyms of FOCUS and TRUST. But it also articulates the goal of "resilience" against a spectrum of possible "shocks" wider than violence and conflict, and that include health pandemics, the effects of climate change, economic downturns, food and fuel price crises and natural disasters[115].

The broad consensus on fragile states that emerged by 2012 has a very good chances to lay the foundations for a new aid regime. Since its principles were formulated from the beginning with active participation of the recipient countries, it has to be more effective than both the discredited "standard" approach and approaches of the second half of the 2000s which had been elaborated primarily by donors. The very fact that the idea for the establishment of IDPS was formulated by the donors emphasizes the complexity of the challenges which they face in fragile countries – challenges that could not be addressed in a traditional way. The New Deal is a result of hard work on correcting past mistakes, and the identification of the best, or rather "best-fit" practices.

114 IDPS. 2011. "A New Deal for the Engagement in Fragile States". IDPS, Busan. URL: http://www.oecd.org/dataoecd/23/7/48346026.pdf
115 Busan Partnership for Effective Development Cooperation. Fourth High Level Forum on Aid Effectiveness. Busan, Republic of Korea. 29 November – 1 December 2011. URL: http://www.oecd.org/dataoecd/54/15/49650173.pdf P.8

2. Risk analysis, prioritization, sequencing

Strategic planning for interventions in fragile states is especially challenging given the variety of dimensions of fragility (military-political, economic, social) and the actors engaged in the process – both in recipient countries, in donor countries, and on the international level. This requires the conduct of more time-consuming analytical work and the consideration of many more factors than when planning interventions in stable countries.

The point of departure in the process of designing aid programs in fragile states is a recognition of the high degree of heterogeneity of this group. Irrespective of some commonalities – "problems with meeting social expectations or the managing of changes in these expectation through the political process" or the vulnerability to the threat of escalation of violence, – countries categorized as fragile differ from each other in institutional capacity of the ruling regimes, models for political settlement and state-society relations; the intensity, longevity and type of violence; the structure of the economy, and many other parameters. Moreover, such heterogeneity can manifest itself within a single country where the level of state presence, the degree of its legitimacy, and the quality of the provision of basic services vary considerably.

Therefore, from the very first days of the utilization of the term "fragile states" donors were concerned about differentiating between types of fragility. This differentiation was expected to help the operationalization of the term, and the elaboration of specific methods of engagement in different country contexts. The result was an establishment of numerous typologies. The most well-known are the typologies of the OECD-DAC and the World Bank. These organizations identify four types of fragile contexts:

1) Post-conflict (post-crisis) or political transition situations;
2) Deteriorating governance environments;
3) Gradual improvement; and
4) Prolonged crisis or impasse.

However, from the very beginning these typologies were criticized for being over-simplistic. They did not capture either the whole variety of the fragile situations, or such an important factor as the transparency of "borders" between different stages of the peace process. This oversimplification was partly compensated for by a placement of the "take context as the starting point" imperative on the top of the OECD-DAC list of Principles of Engagement in Fragile States. The Accra Agenda for Action contained the donors' commitment that they will conduct joint assessments of governance and capacity, and examine the causes of conflict, fragility and insecurity, engaging to the maximum extent possible developing country authorities, and other relevant stakeholders[116].

The absence of a high-quality political economy analysis of the situation in the spheres of governance and security in fragile states may have extremely negative consequences even if the aid intervention does not affect the most politicized and sensitive sectors. So even if aid is intended to be neutral – humanitarian aid for example – it still risks becoming a resource to be fought over, potentially fuelling conflict [Anderson 1999].

116 Accra Agenda for Action. 2008. URL: http://www.oecd.org/dataoecd/58/16/41202012.pdf P.5.

Development aid is rarely neutral. Financial flows will inevitably have impacts on local politics and power dynamics. Impacts may be intended and positive such as reinforcing legitimacy, and encouraging reform. Impacts may also have unintended and negative consequences such as undermining accountability and signaling that repression is acceptable, or may be determined by the bad or incomplete knowledge of the country context [DFID, 2010a, p.2].

Therefore, the principle of "taking context as the starting point" is closely related to another crucial principle of providing aid to fragile states – "do no harm" - that is equally important in both the peacebuilding and the statebuilding spheres.

"Do no harm" principle in peacebuilding is related to the term "conflict-sensitivity" which became a new mantra in development assistance after the publication of book by the American scholar M. Anderson [Anderson 1999]. Although it has been more than ten years since it came out, its basic provisions still remain the core of any research in this sphere. Mary Anderson's "Do No Harm" framework identified three basic ways how aid might do harm:

- Aid can undermine the structures and relationships in society that enable people to live together peacefully (connectors), or conversely it can enhance the factors that push people apart (dividers);
- Aid can provide resources which are redirected for war, or which free up other resources for war, or which increase inequalities (resource transfers); and
- Aid can legitimize the values of war and the positions of warmongers (implicit ethical messages).

In this context, conflict-sensitivity becomes extremely important – the ability of an aid organization to understand the context of conflict, to recognize the links between its interventions and the context, and to minimize the negative and maximize the positive consequences. One of the most well-known schemes of the conflict-sensitive provision of assistance being implemented in practice implies taking seven steps:

1) Understanding the context of conflict;
2) Analyze (identify and unpack) dividers and sources of tension;
3) Analyze (identify and unpack) connectors and LCPs;
4) Analyze - identify and unpack - the assistance project;
5) Analyze the assistance program's impact on the context of conflict;
6) Generate programming options; and
7) Test options and redesign the program[117].

In other words, when dealing with fragile states and situations, donors should take into account the impact of aid on the conflict throughout the whole project cycle and carry out planning, monitoring and evaluation or allocate extra funds fully understanding the linkages between their activities and the dynamics of the conflict.

"Do no harm" principle in statebuilding. Donors engaged in fragile states often prioritize statebuilding goals. However, these goals might be in opposition to their other strategic interests or with each other. An important tool to increase the effectiveness of aid programs is held to be an evaluation of their impact on the key components of statebuilding:

117 *The Do No Harm Handbook*. 2004. The Framework for Analyzing the Impact of Assistance on Conflict.CDA Collaborative Learning Projects. P.3.

1) Inclusive political processes;
2) Legitimacy of state institutions;
3) Constructive state-society relations;
4) Realistic social expectations; and
5) Ability of state institutions to carry out their functions.

One of the most basic challenges to monitoring the progress of a program and the factors that may cause it to fail is the data shortage challenge in fragile or conflict-affected settings. National data systems may have broken down, in some cases for long periods of time, meaning that basic demographic data are not available. In countries with repressive regimes, in particular, government data may be politicized and unreliable. Security constraints may hamper access to many areas for data collection. Somalia epitomizes some of the external and internal risks involved in aid work in fragile states. Many international aid organizations have responded by removing most or all foreign personnel from the country and instead running "remote control" operations from Nairobi, Kenya or from other neighboring countries. Aid organizations often contract out operations to local implementing partners instead of working through their own staff on the ground. However, while this avoids the security risk to their own staff, it also drastically undercuts these organizations´ oversight and control of their daily operations.

Operational outsourcing can have serious negative consequences. In the absence of proper monitoring mechanisms, aid may be diverted to enrich contractors or even fund armed groups, rather than supporting the needy populations for which it is intended.

To minimize these risks donors should invest additional funds to enhancing the quality of information [OECD 2011a, p.53-54].

Some donors acknowledge that risks of engagement in fragile and conflict situations are higher than in traditional development contexts, and use innovative analytical instruments for assessment aimed at minimizing these risks, such as political economy analysis (e.g. the Dutch Strategic Governance and Stability Assessment Framework), problem-oriented analysis of political economy and governance and specific models of analysis of the linkages between conflict and development (World Bank, UNDP); assessment of impact on statebuilding; risk assessments; mapping of stakeholders acting in fragile and post-conflict situations; and conflict audit (See Box 11.1).

Goal formulation – another key component of strategic planning – is also especially important due to the variety of challenges that fragile states face and that affect all spheres – security, economics, politics, and social relations. In recent years donors have drawn on the idea that the final goal of all interventions must be breaking the vicious circle of insecurity, and have started to consider institutional building as the main means to achieve this goal.

However, this only partly facilitates goal formulation because in one way or another all sectors are related to statebuilding. In these conditions, donors might be inclined to solve all of the problems of transforming institutions simultaneously at too early a stage of the transition from violence to peace. This approach sets up very ambitious goals: democratization, eradication of corruption etc., while seeking to impose Western standards. However, practice has shown that this approach is not very effective. First, in countries with a track record of violence and mistrust, expectations are either too low, so

Box 11.1. Examples of analytical instruments used in designing interventions to fragile states

The UK's Program Risk Assessment Matrix. DFID's Middle East and North Africa Department (MENAD) has developed a Program Risk Assessment Matrix (PRAM) that it claims is "... particularly relevant to conflict and fragility". The PRAM, which is updated at six-monthly intervals, monitors risk and performance across three country programs (Iraq, the Occupied Palestinian Territories and Yemen) and the regional program. If the same risks and responses are recurring, managers should take remedial action. Furthermore, the PRAM enables MENAD to keep an eye on both individual country situations and regional trends, and facilitates information sharing across programs [OECD, 2011a, p.47].

Yemen conflict audit
In March 2008, a conflict audit was undertaken for DFID Yemen. The country office had previously carried out a wide range of conflict and political risk analysis, and wanted to use the audit to ensure that it was adequately factoring this analysis into its programming decisions. Some of the key findings of the audit were as follows:

- DFID Yemen is working in many of the right sectors to address conflict, and is reasonably well positioned to influence both government and donor responses.
- The main focus of DFID's work is on addressing deep-seated, structural problems, with long-term potential to reduce causes of conflict. However, short-term conflict may undermine these long-term goals, and more attention could usefully be focused on addressing immediate conflict dynamics.
- DFID Yemen should consider increased support for interventions that produce rapid, tangible benefits, particularly among marginalized communities. DFID's support to the Social Fund for Development (SFD) is seeking to address this need through supporting both quick impact and longer term service delivery projects. SFD is increasingly aligned with government policy and national planning, but is acutely aware of the benefits and pitfalls for state-building of remaining independent. Managing this tension is an ongoing debate for SFD and partners. The justice and water sectors could also offer opportunities to address drivers of insecurity.
- As an essential component of conflict sensitivity, DFID Yemen should strengthen its understanding of how development assistance and government resources are targeted, and the extent to which resources are reaching the poorest and most marginalized.
- DFID Yemen with HMG partners should consider what further steps could be taken to mitigate the impact of potential conflict triggers, including further food and oil price shocks and human rights violations.

Source: DFID 2010a, p.6

that no government promises are to be believed, making cooperative action impossible— or too high, so that transitional moments produce expectations of rapid change that cannot be delivered upon by existing institutions. Second, many institutional changes that could produce greater long-term resilience against violence frequently carry short-term risks. Any important shift— holding elections, dismantling patronage networks, giving new roles to security services, decentralizing decision-making, empowering disadvantaged groups— creates both winners and losers. Losers are often well organized and resist change [WDR-2011, p.9]. Third, the number of reforms that a society can absorb simultaneously is limited.

The acknowledgement of these limitations led to the elaboration of new principles: orientation toward pragmatic, best-fit approaches adapted to the local contexts; prioritizing

and sequencing activities; and getting the balance right between transformative action which is either "too fast" or "too slow". Thus, the contributors to the 2011 World Development Report insist that prior to implementing deep political and macro-economic reforms donors have to focus on providing support for measures aimed at restoring confidence and capability with the help of signals that there has been a real break with the past. These measures must be implemented in the spheres of civil security, justice, and jobs [WDR-2011].

Institutional reform in the sphere of **security** must result in the timely pay of salaries to security personnel, ensuring that the security and justice are funded adequately and transparently (to stem the diversion of illegal revenues from natural resources or trafficking to the security forces). In post-conflict contexts, large security forces in the short-term can be an unavoidable necessity. The need to build trust between erstwhile enemies may call for the integration of the belligerent forces rather than their immediate disarmament, demobilization and reintegration (DDR), especially in the absence of alternative livelihood opportunities when there is a risk that the guerillas passed through a DDR only reemerged as hired killers for existing drug dealers or as leaders and operatives in new drug gangs, as it happened in Colombia [WDR-2011, p.148-153].

These measures must be coordinated with **reforms of the civil justice systems** to avoid situations when advances of the police capacity and legitimacy may lead to a situation where offenders were often released back into communities without due process and continued to engage in illegal activities. Institutional reforms in the sphere of justice must be aimed at ensuring basic administrative functions (replacing of obsolete procedures, and targeting of improvements in caseload processing and arrest procedures; provision of local-level justice services that is important to maintain confidence in institutional reform efforts). Supplementing formal justice with traditional community systems can be another best-fit. Setting achievable goals in the sphere of justice can deliver much better results than grand legal and judicial reform plans and the redrafting of legal codes (as in Afghanistan after 2001, and Iraq after 2003). Another important element is sequencing of anticorruption measure that must begin with establishing control over the resources obtained through resources extraction [WDR-2011, p.153-157].

In the sphere of jobs it is vital to focus on restoring the private sector and alleviating key bottlenecks, supporting value chains, investing in basic infrastructure – constructing and restoring roads, electrical grids, implementation of "back to basics" job creation programs, and vocational training programs with work placement opportunities , and providing support to agriculture (especially in violence-affected countries) which is the most likely source of jobs in many conflict-affected situations [WDR-2011, p.157-164].

Interventions in three sectors must be carried out in the form of a specialized suite of combined security-justice-development programs. Multisector community programs that involve policing and justice as well as development activities may have a large potential, such as the initiatives in Latin America to provide local dispute resolution and justice services, community policing, employment and training, safe public and trading spaces, and social and cultural programs that promote tolerance [WDR-2011, p.272].

Most other reforms will need to be sequenced and paced over time including political reform, decentralization, privatization, and shifting attitudes toward marginalized groups. Systematically implementing these reforms requires a web of institutions (democratization, for example, requires many institutional checks and balances beyond elections) and changes in social attitudes [WDR-2011, p.164].

Early **political reforms** can be extremely costly. Elections without a substantial degree of cooperation among those wielding economic, political, or military influence at national and local levels are unlikely to succeed in their broader objectives and can be detrimental to the long-term peacebuilding process. Premature elections can trigger serious violence – as in Iraq in 2005 and Kenya in 2007 [WDR-2011, p.164]. Territorial devolution and decentralization of political, administrative, and economic power can cause serious problems if "political power at the center is highly fragmented, or constellations of local power are misunderstood." Similarly, evidence shows that decentralization processes may make local democracy more vulnerable to political capture when restraints and accountability measures are absent [WDR-2011, p.164-166]. **Economic reforms** also need to be implemented gradually, and have limited scope at the beginning. Privatization of essential or valuable state assets must be carefully prepared [WDR2011, p.166]. **Education reforms** – education systems have the potential to mitigate conflict and contribute to peacebuilding in the long term, but also to exacerbate and perpetuate violent settings, if badly planned, as it was the case with the internationally led education campaign in Afghanistan in 2002-2003 [WDR-2011, p.169]. On **health reforms** – donors must be realistic and deliver basic services in post-conflict settings, while preparing long-term institutional reforms [WDR-2011, p.169].

Thus, donors have to be realistic in assessing the timeframe for fundamental institutional reforms and implement them carefully, avoiding the risk of exacerbating political violence. However, the effective implementation of the principles "take context as the starting point" and "do no harm" can be carried out only by engaging authorities and other stakeholders from partner countries into the process of strategic planning. That is why the Post-Conflict Needs Assessment and Transitional Results Matrices prepared jointly by donors and partner countries and used by the World Bank, UNDP and the EU are always considered among best practices [See Box 11.2].

3. Choosing modalities and channels of aid delivery

A key dilemma that donors face in fragile states with high level of corruption and colossal developmental needs is how to balance contextual, programmatic and institutional risks. This dilemma manifests itself most clearly in making decisions on alignment with existing country systems.

There is a wide range of forms for providing assistance through national systems - direct budget support, pooled funds, and support for the PRS. In fragile states the use of country systems can bring obvious dividends, such as enhancement of institutional capacity and accountability of state institutions to citizens for service delivery, legitimacy, alignment with national priorities, and opportunities to scale-up results. In this respect, the use of

Box 11.2. Post-Conflict Needs Assessments (PCNAs)

PCNAs may be conducted during or after a peace process or political transition. They are often used as inputs into coordination mechanisms such as Transitional Results Frameworks (TRFs). They provide a baseline, as well as a means of raising funds. Assessment teams are generally made up of national and international counterparts, organized according to sectors or clusters, with a program of field visits and consultations. PCNAs are managed around four elements or phases: 1) **pre-assessment**: including conflict analysis, mapping institutional capacities, assessment of security issues; 2) **assessment and recovery planning**: needs assessment, prioritization, developing a TRF, budgeting; 3) **validating and financing**: including determining coordination mechanisms and funding modalities; 4) **implementation**: including progress reporting and monitoring, and a proactive communication strategy. PCNAs should be validated with a wide cross-section of national and international stakeholders to build ownership. Where the legitimacy or capacity of national counterparts is limited, an initial assessment with a limited time horizon (18 months) may be undertaken, followed by an in-depth assessment once clearer national leadership emerges.

In post-conflict or post-transition situations, TRFs are used to set out a program of activities, typically over a two-year period in six-monthly cycles. TRFs contain agreed outcomes, with a common monitoring and reporting system. They should describe a critical path for the transition process, and cover the range of transition issues, including statebuilding and peacebuilding, security, basic service delivery and economic recovery. When complemented, the TRM becomes a framework strategy for all participants in partnership and serve as a "basic national development strategy".

TRFs can be used to coordinate external assistance even where there is low government capacity, incorporating greater involvement and leadership by national actors over time. A TRF can also play the role of a donor–government compact, articulating mutual roles and responsibilities. To be successful, TRFs must be simple and accessible, selective and prioritized, integrated across the various spheres and nationally owned (even if not government-led). They must also generate sufficient donor buy-in: joint analysis underpinning the TRF is critical to achieving this.

As of 2012, PCNAs were conducted in Haiti, Liberia, Iraq, Pakistan, Somalia and two times in Sudan. They are generally seen as the best practice in strategic planning of interventions and a key tool in increasing the alignment, mobilization of resources, coordination (not only between donors, but between humanitarian and developmentalist actors as well), as well as incorporating the managing for results principle.

Source: DFID 2010b, p. 2-4.

national systems of partner countries might play a decisive role, especially at the early, post-conflict stages when the major goals of donors are to support the transition to peaceful development and to help build confidence in a new government.

However, providing assistance through the state in fragile situations is associated with serious risks. The main risks are: a high probability for inappropriate use of funds, undermining incentives to broaden the revenue base of a national budget; high programmatic and institutional risks for the donors (in comparison with implementation of projects through NGOs) because of which the launching of projects takes much longer (in Sudan it took 10 years).

Providing assistance through non-state channels in fragile states has both advantages and shortcomings.

The most obvious advantages are

1) Speed – the possibility to meet the population's urgent needs in service delivery;
2) Encouraging civil engagement;
3) Guaranteed participation by marginalized groups;
4) Quick dividends; and
5) Significantly lower fiduciary and reputational risks.

On the other hand, providing assistance bypassing the state: 1) is counter to the long-term goal of strengthening institutional capacity; 2) does not enhance accountability; 3) raises social expectations to the level which weak state institutions would not be able to meet on their own (which can be detrimental to the long-term peacebuilding process); 4) has a negative impact on state-society relations; 5) is often limited to small, fragmented projects the scaling-up of which can be extremely hard; and 6) creates a parallel public sector.

As was mentioned earlier, the period of prevalence of the standard approach to risks of providing assistance through public institutions exceeded the potential benefits for donors who chose to deliver aid directly to people in need through NGOs. However, the latest research has made it possible to identify a range of best practices which minimize substantially the aforementioned risks.

The international donor community sees great potential in **additional safeguards** that allow it to minimize fiduciary risks. These include:

1) Greater independent oversight and monitoring of government-executed programs (for instance, in Afghanistan and the West Bank and Gaza under World Bank–administered multi-donor trust funds).
2) Releasing donor funds only upon unqualified monthly or quarterly audits by a certified external auditing firm, as undertaken for the Uganda Veterans Assistance Program.
3) Using external financial management and procurement agencies, where international firms have overall responsibility for program financial management and procurement and maintain a program's consolidated budget and accounts, as was carried out in demobilization and reintegration in Angola, Guinea-Bissau, and Sierra Leone.
4) "Dual key" programs, where both national and international actors sign off on critical, high-risk transactions, such as the Liberia Governance and Economic Management Assistance Program.
5) In-kind support to items in the national budget, as in Zimbabwe, where a bilateral donor has directly financed, procured, and provided such items through contractors, as with the provision of medicines to state-run clinics.
6) Allocating extra funds for supporting national audit authorities and conducting more frequent audits.
7) Introduction of joint (donor + partner) monitoring and evaluation practices in finance and in the line ministries of partner countries [WDR-2011, p.202].

However, it is important to understand that decisions about providing budget support are inherently political and can be made against the logic of risk management (e.g., the U.S. decision about disbursing 40 percent of its aid to Afghanistan through public channels and providing budget support to Pakistan).

Pooled funds and multi-donor trust funds (MDTFs) administered by the World Bank and the UN can also be a way to achieve visible results in fragile states using public channels, especially in situations where the weakness of institutions and a high fiduciary risk do not allow the use of direct budget support. The advantages of this instrument are the following:

1) Scaling-up of programs – possibility to support programs that exceed the contribution of a single country;
2) Effective way to pool political, institutional and reputational risks, shifting the burden of responsibility for risks of waste, abuse or corruption from the shoulders of each individual donor to the multilateral system;
3) A trust fund is an important mechanism of policy dialogue both with a national government and with other trust fund donors (simultaneous enhancement of coordination and alignment with national priorities);
4) Reduction of transaction costs for donors and recipients which is especially relevant for countries with weak institutional capacity; and
5) Significantly higher predictability of financing[118].

Trust funds are active in 18 fragile states. Some of them are administered by the World Bank (Afghanistan Reconstruction Trust Fund, Haiti Reconstruction Fund), and some by the UN (Peacebuilding Fund, Southern Sudan Reconstruction and Development Fund). In special circumstances the funds can be administered jointly by the UN and the World Bank (Iraq Relief and Reconstruction Fund). Trust funds administered by the World Bank can provide direct budget support, including covering transactions costs, while the disbursement of monies through the UN trust funds is carried out by the specialized body of the UNDP.

Multidonor trust funds have delivered excellent results in some situations—funding, for example, a range of high-impact programs in Afghanistan through the Afghanistan Reconstruction Trust Fund (ARTF) and the Law and Order Trust Fund for Afghanistan (LOTFA), supporting essential start-up and system maintenance costs for the nascent Palestinian Authority under the Holst Fund in the mid-1990s in the West Bank and Gaza, or serving as catalytic funding in Nepal under the auspices of the Peacebuilding Commission.

However, the benefits of trust funds can easily be undermined if: 1) the funds are disbursed slowly; 2) the funds themselves become fragmented; 3) contributing donors readily pass the blame for project failure onto the managing agency, creating an incentive for the fund manager to moderate the scope of activities; and 4) there is a lack of engagement of a national government [Chandy 2011, p.8]. Risks can be mitigated by the use of the combined security-justice—development programs, and internal agency reforms, along with contributing more monies to trust funds (today they account for a very low share of financing) [WDR-2011, p.33].

118 WDR-2011, p.204; Guider L. 2009. Multi-Donor Trust Funds. Instruments of First Choice for Post-Crisis Situations. Washington, D.C.: World Bank.

Box 11.3. Multi-Donor Trust Funds in Afghanistan and Southern Sudan

Afghanistan
UNDP established the Afghan Interim Authority Fund (AIAF), supported by 24 donors and valued at US$73 million for a limited period of six months to pay for the most pressing needs of reestablishing the civil service: paying salaries, rehabilitating government buildings, and procuring equipment. This support bolstered government capability and legitimacy in the early phases of transition and bridged the gap until such time as a subsequent MDTF could provide long-term budget support and finance investment programs. The Afghanistan Reconstruction Trust Fund (ARTF), supported by 32 donors, disburses funds through a "recurrent window" to finance the budget (salaries of civil servants and facility costs, particularly in education and health) and an "investment window" to support the government's National Priority Programs. The ARTF is intended to coordinate funding and reduce the burden on the government, promote transparency and accountability, and reinforce the role of the national budget in promoting national objectives. Since its inception in 2002, donors have committed US$4 billion (as of December 2010), the largest contribution to the Afghan budget. The ARTF moved quickly, disbursing 99 percent of committed funds in 2003–04 and 75 percent in 2005–06, serving as the main vehicle for financing payment of government salaries, as well as key projects such as the Salang Tunnel and the National Solidarity Program. UNDP administers the complementary Law and Order Trust Fund for Afghanistan (LOTFA), which largely funds police salaries. The current phase of LOTFA was funded by 15 donors providing around US$306 million.

Southern Sudan
A US$545 million Southern Sudan Multidonor Trust Fund was established in 2005, with financing from 14 donors and with the World Bank appointed as trust fund administrator. The government of Southern Sudan, donors, NGOs, and civil society have criticized the MDTF for slowness and inefficiency, lagging disbursements, and inflexibility. Reviews have pointed to the World Bank's underestimation of logistical difficulties, institutional deficiencies, and communication challenges—and to inconsistent managerial oversight, especially in the critical early phase. Part of the explanation for this was the dilemma faced by the World Bank in trying to balance the risk posed by swift action (possible misuse of the funds) with the risks of inaction (failing to disburse funds and not achieving goals). The World Bank has taken steps to improve the fund's management—disbursements in 2010 amounted to US$188 million and reached a total of US$400 million by December 2010 (almost three-quarters of the funds committed).

Source: WDR-2011; p.203.

Community-driven development programs (CDD programs), according to most specialists, are one of the most promising instruments for providing aid to fragile and conflict-affected states. The underlying principle of the CDD concept is providing grants to communities for implementation of small-scale projects designed by the community members in accordance with certain criteria. The CDD programs: 1) may accelerate the process of service delivery to populations in the post-conflict settings when the state's capacity in core functions is weakened; 2) strengthen the legitimacy of a government especially if the conditions for the program are the same across the country; 3) lay the foundations for improved governance through involving local people in decision-making; 4) rebuild social fabric and mitigate conflict; 5) contribute to private sector development; and 6) minimize fiduciary and reputational risks for donors.

The CDD programs are implemented in a range of post-conflict countries (Afghanistan, Liberia, Angola, Columbia). "What is fundamentally different is the urgency. There is more pressure on delivery to cement the break with the past and to show this amounts to real change. At the community level, things can be more fraught. There is more at stake if you get it wrong – you could worsen tensions that have led to violence in the past or entrench old hierarchies that you had the opportunity to undo"[119] .

However, as the experience of the largest programs clearly shows (National Solidarity Programs in Afghanistan), CDD programs can make a more important contribution to statebuilding than humanitarian assistance or infrastructure development projects.

Box 11.4. National Solidarity Program (Afghanistan)

The largest development program in Afghanistan, the National Solidarity Program (NSP), was established in 2003 in the situation of a limited capacity of the central government as a key component of reconstruction process. Providing grants in cash to democratically elected and gender balanced community development councils, the program builds representative institutions for village governance and has registered some important successes.

Typical projects construct or improve critical infrastructure, such as communal drinking water facilities, irrigation canals, local roads and bridges, and electrical generators, and offer vocational training or literacy courses to villagers. Since its inauguration in 2003, it has established more than 22,500 community development councils across 361 districts in all 34 provinces and financed more than 50,000 development projects.

Across the board, those in villages participating in the NSP had more trust in government officials, showing that it is possible to markedly change perceptions of state institutions through effective local interventions.

Source: WDR-2011, p.133

"Shadow alignment" can be used in states where the government's legitimacy is in question, or where relations between government and the international community are strained. Shadow alignment provides the following benefits: 1) it helps the national government in the partner country to coordinate aid flows with budget expenditures; 2) it helps the authorities exert control over the service delivery through NGOs and strengthens its institutional capacity; and 3) it enables rapid conversion to "real" alignment as soon as conditions permit.

There may be political risks associated with shadow alignment, including providing support to a repressive regime, or allowing a crisis situation to continue by solely addressing its symptoms. The decision-making process over when, where and how to "shadow align" should involve other diplomatic and security partners in order to ensure that developmental objectives are in line with agreed upon political goals and all objectives are mutually reinforcing [OECD 2011b, p.82].

119 Community-Driven Development Brings Peace Dividends in Conflict-Affected Countries. URL:http://go.worldbank.org/MQLQ20HDJ0

Shadow alignment[120] is, by definition, a transitional measure. That is why donors must make a transition to "real alignment" as soon as possible in order to strengthen the capacity of state institutions in the spheres of budget management and implementation, and to increase their legitimacy. However, it is important to continue to support civil society organizations in order to increase transparency and to establish a more effective social contract. The latter can not be achieved if all aid is channeled through the state.

Where partner governments are willing, but as yet unable, to take full control over donor money, donors are funding capacity building. It supports institutional building and allows control over and reduction of fiduciary risks. Donors have full control over technical assistance (generally carried out by their own, or directly-contracted, staff). It is also perceived to increase the flexibility and speed of interventions in fragile states. To support this, many multilateral organizations (UN agencies, AfDB, World Bank) and individual donors have set up so-called "expert rosters": pools of experts who can be sent abroad on rapid assignments at short notice. These rosters cut donors' reaction time to foreign crises. The rosters also allow the pooling of different kinds of expertise and experience; their express purpose is to enable individuals to be recruited for their expertise rather than their departmental affiliation [OECD, 2011a, p.83-84]. However, technical assistance still raises criticism for being expensive. Moreover, experts question its effectiveness given that all attempts at the application of Western standards to fragile states are doomed to fail. In this respect, fostering South-South and trilateral cooperation can play a significant positive role (See Box 11.5).

Combining humanitarian and development assistance. Providing development assistance is a lengthy and long-term process. However, in fragile states speed sometimes has decisive importance. In countries where current stresses overwhelm national institutional capacity by a large margin, national reformers often draw on international humanitarian capacity to deliver early results. These programs can be effective in saving lives, building confidence, and extending national capacity. But a difficult trade-off occurs in deciding on the time needed to shift these functions to national institutions. For food programs, this generally means phasing down deliveries before local harvests and moving from general distribution to targeted programs, in coordination with government social protection agencies where possible. For health, education, water, and sanitation, it means reducing international roles step-by-step over time as the capacity of national or local institutions increases—as in the transition from international to national health provision in Timor-Leste, which moved from international execution to government contracting of international NGOs, and then to government management [WDR-2011, p.19].

For a long time donors sequenced humanitarian and development aid. However, applying this approach in fragile states is not sufficient and is counterproductive. Key statebuilding and peacebuilding programs: security sector reform (SSR); disarmament, demobilisation and reintegration (DDR); transitional justice, etc. need to be pursued in parallel. However, the difficulty is that this financing does not meet ODA criteria. Also, humanitarian funds

120 Shadow alignment is a special form of providing aid in such a way as to bypass the national systems, while mirroring them. Donors publish their financial reports independently but simultaneously with the government of a partner country and use the same break-downs by sector. OECD. 2011. "Supporting Statebuilding in Situations of Conflict and Fragility: Policy Guidance". DAC Guidelines and Reference Series, OECD Publishing. URL: http://dx.doi.org/10.1787/9789264074989-en P.82

cannot be used to support non-ODA activities like security sector reform. Against this backdrop, transition financing mechanisms are needed which enable flexible and rapid responses to a wide variety of needs and opportunities (perhaps combining ODA and non-ODA) [OECD 2011a, p.29-30]. Such transition financing mechanism mechanisms are used by the World Bank, the European Commission, and individual donors.

Box 11.5. Transition financing mechanisms of aid to fragile states.

Stability Instrument (EU). Established by the European Commission in 2007. Combines short-term elements (under the Directorate General External Relations) with longer-term elements (under the European Cooperation Office). It can also finance non-ODA eligible activities, although according to the OECD transition financing paper it has not yet done so. The Stability Instrument is designed for use during crises, allowing the European Commission to skip the tendering and negotiation process. It takes only three months to allocate funds once an opportunity has been identified. This is compared to between one year and 18 months in the normal European Commission development assistance cycle. Volume: US$ 2 billion; short-term component – US$1.48 billion (2007-2013).

World Bank's State and Peacebuilding Fund. Established through the merger of the Post-conflict Fund (est. in 1998) and LICUS trust fund (est. in 2004). Complements International Development Association (IDA) support by financing small and urgent activities not easily funded under regular IDA credit or grant operations.

Special budget item to development-oriented emergency and transitional aid (Germany).
In 2006 BMZ established a dedicated budget item to development-oriented emergency and transitional aid (known as Title 68720), with a related policy strategy and guidelines. This funding is designed specifically to bridge the gap between humanitarian and development assistance by laying the foundations for a longer-term development process – i.e. it acts as seed money. Funds from Title 68720 have a special set of rules and regulations: 1) they can be allocated on short notice and disbursed quickly; 2) the planning and approval process proceeds more quickly than for technical or financial co-operation; 3) there is no requirement to comply with the BMZ's fixed country allocations or to make agreements through government negotiations or exchanges of notes.

Stability Fund (Netherlands) – established in 2004. Combines ODA and non-ODA funds in order to provide rapid and flexible funding for activities to promote peace, security, and development in situations of conflict and fragility. The fund has successfully supported key policy areas such as conflict prevention, mediation, peacekeeping and peacebuilding, including SSR and DDR programs. The fund is financed by the Ministry of Foreign Affairs, including the Department for Development Cooperation that manages the fund and assumes political and financial responsibility for disbursement of monies. Two factors have contributed to the fund's success: (1) the strong political support for and understanding by the Dutch parliament of the need to be flexible and pragmatic; and (2) de-linking allocation decisions from questions about ODA eligibility (i.e. the decision of whether or not funding qualifies as ODA is made after the funding decisions have been made). The categorization of activities as ODA or non-ODA only takes place afterwards, enabling the Dutch government to respond to urgent needs in fragile states quickly and without red tape.

Source: OECD, Managing Risks, 2011, p.76.

4. Defining scope and timeframe of engagement

Fragile states face the greatest development challenges and depend the most on foreign aid (share of aid in GNI in fragile states averages 9.6 percent). However, apart from gross volumes, the scale of individual projects and their potential to have an impact on the situation in a recipient country, and the timeframe of engagement also matter. In fragile states, aid sometimes is needed very quickly, whereas eradication of the root causes of the weakness of state institutions requires a long-term engagement. The fragility period can last up to 25 years (DRC, Cambodia, Angola, Chad), and it can take up 15 to 27 years to achieve the minimum threshold for cutting off assistance (strengthening the economy to a level at which the state apparatus can be financed exclusively from the budget).

For a long time donors opted for a minimization of programmatic and reputational risks which had a negative impact on aid flows. Fragile states received 58 percent less in bilateral and 34 percent less in multilateral aid than non-fragile developing countries[121]. Moreover donors preferred to direct less money, and stay engaged for shorter periods, and implement Quick-Impact projects – QIPs. However, a desire to get quick dividends and report to taxpayers often has hampered a truly systemic change, brought about unrealistic social expectations, and delegitimized the long-term reconstruction process. Moreover, it led to fragmentation and higher volatility of aid. Two-thirds of aid shocks (a difference of more than 15 percent of aid per capita from one year to another) between 1970 and 2006 occurred in fragile states, just where country systems are the weakest and the risks of instability the highest. Such volatility is estimated to shave 15 percent off the value of ODA. In a recent study, the economic losses associated with volatile net official development assistance were more than twice as high for weak states as for strong states (2.54 percent versus 1.19 percent of GDP) [WDR-2011, p.25].

Eventually, donors drew some conclusions. The DAC members increased aid to fragile and post-conflict states from US$9.3 to US$ 46.7 billion. US$46.7 billion in net ODA goes to fragile states, or 37 percent of ODA. Fourteen DAC donors allocate 30 percent or more of their bilateral aid to fragile states, the top being the United States (49 percent) and the United Kingdom (39 percent). Emerging donors contribute an estimated US$12-15 billion in development aid (to both fragile and non-fragile countries), equivalent to 10-15 percent of the amount provided by OECD donors [INCAF 2011, p.2-3].

However, other key quantitative parameters of aid that affect directly its quality, remain unsatisfactory.

1) Aid to fragile and conflict-affected states has also grown from 29 percent of total aid in 1996–98 to 41 percent in 2006–08. However, much of that shift is due to increases in humanitarian assistance and debt relief, which have become increasingly concentrated in fragile and conflict-affected states. In the period 1996–98, 34 percent of humanitarian assistance and debt relief was to fragile and conflict-affected states—that increased to 75 percent in 2006–08. Once humanitarian assistance and debt relief are taken out, aid to fragile and conflict-affected states was 28 percent of the total in 1996–98, and 30 percent in 2006–08 [WDR-2011, p.183].

121 Levin, Victoria and David Dollar. 2005. "The Forgotten States: Aid Volumes and Volatility in Difficult Partnership Countries (1992-2002)." Paper prepared for the DAC Learning and Advisory Process on Difficult Partnerships, January. Pp.14-15

2) Aid volumes are very concentrated. Half of ODA to fragile states goes to only eight countries (Afghanistan, Ethiopia, Pakistan, Palestine National Authority, Iraq, DRC, Côte d'Ivoire, and Sudan). This concentra¬tion has been increasing over the past decade and aid projections (2009-12) confirm this trend. Conversely, about 20 countries of lesser geopolitical importance can be considered under-aided [INCAF 2011, p.5].
3) There are too many donors in a handful of fragile states, and there are too few in others. Despite limited capacity, 14 fragile states have partnerships with 30 donors or more, half of which are considered non-significant. By contrast, four fragile states are each dependent on only one donor for at least 50 percent of their aid. These are Iraq (89 percent), Solomon Islands (81 percent), Papua New Guinea (68 percent) and Afghanistan (53 percent). While donor concentration should generally be encouraged, changes in donor priorities could have a significant impact on countries dependent on exceptionally few donors [INCAF 2011, p.5].
4) Short project duration and small project size compound the problem. In the Democratic Republic of Congo, 30 active donors are financing 362 projects in the health sector, 262 for less than US$1 million; and 305 projects in the justice sector, 199 for less than US$1 million. According to a European Commission study, 63 percent of all donor projects in Cambodia have a duration of less than three years, and over one-third, a duration of less than a year.
5) Aid to fragile states is twice as volatile the aid to strong states. The estimates suggest that from 30 to 50 percent of volatility is donor-driven, independent of events in, or actions by, the recipient country [WDR-2011, p.194].

In fragile states donors tend to engage in crisis and post-conflict settings. When the post-conflict stage ends, the levels of aid begin to decline, sometimes quite drastically, which may exacerbate social tensions. This situation can be explained by the fact that the absorptive capacity of the fragile states remains at a low level, and the progress toward reforms may prove to be slower than donors expect. The problem is that the decline in aid levels occurs at the very moment when the absorptive capacity increases and, therefore, the aid effectiveness could be substantially higher.

There are options for reducing volatility , including 1) providing threshold amounts of aid based on appropriate modalities; 2) topping up aid allocations to the most fragile states when specific types of programs have demonstrated their ability to deliver effectively and at scale; 3) dedicating a target percentage of assistance to larger and longer-term programs in fragile and conflict-affected states in accordance with the Accra Agenda for Action; and 4) more effective selection of aid instruments [WDR-2011, p.291].

More effective selection of aid instruments seems to be especially promising. In allocating aid, donors currently consider two fundamental objectives: aid should follow need, and aid should be well-used. Unfortunately, in fragile states, these two objectives are commonly in conflict: needs are far greater than elsewhere, but governments lack the capacity to spend aid well. The result has often been that aid volumes oscillate around an inadequate average as donors shift between concern for need and concern for effectiveness. Donors have been attempting to achieve two objectives: meeting need and assuring effectiveness, with a single instrument—the volume of aid. Such an approach is doomed to failure: either one of the

objectives must be sacrificed or a second instrument must be introduced. Since clearly neither objective can be abandoned, the implication is that donors must develop another instrument. That instrument is the modality for aid delivery: modalities should vary according to the capacity of the recipient government. The donor dilemma can be resolved by linking the objective of meeting needs to the volume of aid, and the objective of using aid well to the choice of delivery modalities. Fragile states need large volumes of aid, but aid delivery should look very different from contexts in which government ministries are effective. But to establish that those needs can indeed be met cost-effectively and to build long-term institutional resilience, delivery modalities that encourage experimentation, are evaluated for results, and are adapted to respond quickly to experiences of success and failure. It means that donors should be more prepared to assume risks [WDR-2011, p.282].

5. Coordination: whole-of-government and whole-of-system approaches

The variety of challenges faced by the fragile states calls for a coordination of efforts between diplomacy, security, and development actors, and the elimination of discrepancies in how they see the goals of intervention and the assessment of the risks. If we talk about coordination between different agencies within a single donor government, this approach is called the "whole-of-government approach", and the "whole-of-system approach" if the coordination is carried out at the international level.

Whole-of-government approach. In order to carry out effective interventions in fragile states, donor countries have to get approval of the "whole-of-government approach" at the highest level. In recent years a range of countries, including the United Kingdom, the United States, Canada, and the Netherlands emphasized the need to integrate efforts of different agencies when elaborating their approaches to fragile states in their programmatic documents (the Strategic Defense and Security Review[122], published by the UK Government in 2010, National Security Strategies of the United States (2002, 2006, 2010) with its emphasis on 3D concept (defense, diplomacy, development)[123].

Analytical Tools. Studies show that some governments have developed analytical tools to provide an evidence base for long-term coherent policy and strategy development. Examples are the UK's interdepartmental Drivers of Change analyses and Strategic Conflict Assessments; and the Netherlands' Stability Assessment Frameworks, and the United States' Interagency Conflict Assessment Framework, prepared jointly by the State Department and USAID with engagement from the staff from other agencies. The advantages of this practice are enhancement of the quality of analysis, the minimization of risks of doing harm, the promotion of dialogue, and the formulation of coherent goals for intervention [OECD 2007, p.30-31].

122 UK Government. 2010. "Securing Britain in an Age of Uncertainty: The Strategic Defense and Security Review" URL: http://www.direct.gov.uk/prod_consum_dg/groups/dg_digitalassets/@dg/@en/documents/digitalasset/dg_191634.pdf?CID=PDF&PLA=furl&CRE=sdsr

123 The National Security Strategy of the United States of America // The White House. May 2010. URL: http://www.whitehouse.gov/sites/default/files/rss_viewer/national_security_strategy.pdf (date of access: 18.08.2010). The National Security Strategy of the United States of America // The White House. September 2002. URL: http://georgewbush-whitehouse.archives.gov/nsc/nss/2002/ (date of access: 25.05.2011).

Developing joint country strategies can furthermore contribute to a whole-of-government approach by encouraging consultation and shared analysis of political, security and development issues. It can also become a management tool and enable actors to link departmental priorities to overall foreign policy objectives, thereby providing a basis for ensuring that actors speak with a common voice when dealing with different host government interlocutors. The UK, for instance, has developed joint strategies for a number of countries with the impetus to draft such a strategy often coming from the Cabinet Office. In some cases a joint strategy emerges from discussions between departments, for instance, when either the Foreign and Commonwealth Office or the Department for International Development produces a draft strategy based on its own analysis and invites comments from other departments [OECD 2007, p.27-28].

Establishment of special units to foster interagency cooperation in fragile and conflict-affected countries has become the common practice in recent years. The most illustrious examples are: the UK Department for International Development's (DFID) Stabilization Unit and Stabilization and Reconstruction Task Force (START) under the Ministry of Foreign Affairs and International Trade (Canada); the U.S. Office of the Coordinator for Reconstruction and Stabilization; and the Netherlands Peacebuilding and Stabilization Unit under the Ministry of Foreign Affairs. One of the advantages of these units is that they report directly to political leaders. One instrument that is used in all cases investigated as part of a broader strategy for the promotion of joined-up approaches both at headquarters and field level, is secondment of staff to other departments (for example, secondment of staff from the agency for international development to the ministry of defense) [OECD 2007, p.29-30].

Civil-military cooperation at country level. The most well-known examples of this cooperation are the Provincial Reconstruction Teams established in Afghanistan (2002) and in Iraq (2005), and the activities of several of the Pentagon's programs in Africa: the Combined Joint Task Force/ Horn of Africa, the Trans-Sahel Counterterrorism Partnership, the East Africa Counterterrorism Initiative, and AFRICOM. However, effectiveness of the activities of these teams was questioned due to the colossal imbalance between military and civil specialists (for example, of the 1,055 members of the American PRTs in Afghanistan only 34 were civil servants), the prevalence of short-term goals over long-term development goals, and the submerging of engagement to the imperatives of the Global War on Terror [Bartenev 2011].

Pooled funds. Fragile states require flexible and timely funding to meet urgent basic needs, as well as to create peace dividends. Simultaneously, fragile states require recurrent funding to meet structural needs and to provide long-term rehabilitation support (e.g., rebuilding basic service delivery channels), and support for long-term development, as they cut across organizational and budgetary boundaries (and often fall between stools). Given the importance of resources for implementing policies, funding mechanisms are considered by most respondents in the case studies of fragile states as a key factor for enabling effective integrated engagement. The result was the establishment in some

Box 11.6. Financial instruments of providing aid to fragile states.

The UK's Conflict Prevention Pool and Stabilization Aid Fund. The Conflict Prevention Pool (CPP) was created in 2008 by the merging of two conflict prevention funds – the Global Conflict Prevention Pool and the Africa Conflict Prevention Pool that were established in 2001 and were chaired by the DFID and the FCO respectively. The Conflict Prevention Pool unites funds of three agencies – DFID, FCO, and the Ministry of Defense and finances general conflict prevention programs ranging from the Sudan to the Americas. The fund's volume averaged 110 million pounds a year over 2008-2011. The Stabilization Aid Fund (SAF) is dedicated specifically to Iraq and Afghanistan. The volumes of the fund fluctuated between 73 million pounds (2008) and 123 million pounds (2011).

Canada's Global Peace and Security Fund (GPSF) is administered by Foreign Affairs and was created to support Canada's response to international crises. The Fund is largely used to fund peacebuilding initiatives co-ordinated by the Stabilisation and Reconstruction Task Force. It is managed by the Department of External Affairs and International Trade. The fund's activities are regularly checked by the Consultatitve Board of the START group.

Source: OECD, 2007, p.27.

countries (Netherlands, Canada, the United Kingdom) of pooled funds – the integrated, interagency financial instrument flexible enough for repaid disbursement of funds [OECD 2007, p.25-27].

Common pooled funds bring a range of advantages. They make it possible to secure the support from all agencies; to ensure the achievement of interagency consensus on the goals of engagement; to facilitate joint monitoring and impact evaluation; and to serve as step toward developing truly integrated country strategies. However, there are several shortcomings: an absence of coordination; the over-response to short-term goals; a lack of leadership that could overcome inter-agency tensions; and an orientation toward a project-based approach.

The donors' experiences in implementation of the whole-of-government approach show that a range of factors continue to hamper real progress in this sphere. These obstacles include:

1) Inherent differences in agencies' mandates;
2) Contradictions between the approaches of the security and diplomacy actors which are aimed at achieving quick results, and those of the development agencies which are oriented toward long-term engagement;
3) Utilization of different terminology that often results in misunderstandings, and
4) The high probability of submerging of the weaker development agencies' priorities to the priorities of stronger bodies – the ministries of foreign affairs and defense, that may result in politicization and even militarization of development assistance.

Whole-of-system approach. In recent years the number of political, humanitarian, and development actors engaged in fragile states, as well as the number of their activities, has grown many times. However, the positive consequences of increased engagement are often

offset by the costs of a lack of coordination. This raises the problem of coordination at the international level to the forefront of international development agenda: notably between the UN and the Bretton-Woods. It is worth mentioning that the international community has managed to make some advances in this sphere in recent years.

In the UN system the positive changes began as early as 1997 with the establishment of the Development Coordination Office and the UN Development Group. This process has accelerated in the last decade. The UN endorsed the 3C approach (3Cs - coherent, coordinated, complementary) that emerged as a result of analyzing the experience of engagement in fragile states. In recent years the UN Security Council has initiated a range of integrated missions; agencies began to develop joint assessments and action plans. They coordinate their efforts in such spheres as negotiations, rule of law, security sector reform, conflict prevention, elections support, mine removal, and DDR operations. For example, in Sudan an integrated DDR unit managed to unite effectively military and civil components of the DDR program which benefited from close cooperation between the UN Peacekeeping country mission, UNDP and UNICEF.

Another important step was an establishment of the Peacebuilding Commission – a consultative body whose mission is to provide support to post-conflict reconstruction and mobilize resources for these purposes. The Commission carries out its activities in close cooperation with the ECOSOC, and provides recommendations to the Security Council on planning and launching peacebuiliding activities. In February 2006 the High Level Panel on UN System-wide Coherence, whose mission was to ensure that the situation would not persist where 10 or more agencies and funds operated in a single country and duplicated each other. Based on the Commission's recommendations, UN Secretary-General Ban-Khi Moon called for the integration of all UN agencies on a country level, especially in the sphere of humanitarian assistance. The UN has already proceeded to the implementation of 8 pilot projects aimed at implementing "One UN" principles in practice.

Important changes occurred also at the World Bank where a Special Fragile and Conflict-Affected States Group was created. Its goals are to coordinate efforts undertaken by the WBG in these countries; to increase aid effectiveness; to develop and implement the Bank's agenda on conflicts and fragility across the entire organization; and to administer the Statebuilding and Peacebuilding Fund.

However, the best example of implementation of a whole-of-system approach to crisis and post-crisis situations was the conclusion of the UN-World Bank Partnership Framework that set the general principles of work with partner-countries, including the use of PCNAs. The Partnership called on the World Bank Group and the UN agencies to improve interagency coordination, enhance joint planning and cooperation in use of joint mechanisms[124]. The Fiduciary Principles Accord facilitating the transfer of financial resources between organizations in the cases where one of them administers a trust fund[125]. Finally, in 2009, the Swiss Agency for Development and Cooperation (SDC), the World Bank, and the United Nations approved US$3 million for a Trust Fund to support enhanced partnership activities between the United Nations and World Bank with a view to achieving

124 United Nations-World Bank Partnership Framework for Crisis and Post-Crisis Situations. 2008. URL: http://siteresources.worldbank.org/EXTLICUS/Resources/UN-WBFramework.pdf

125 Fiduciary Principles Accord, 29 January 2009. URL: http://www.undg.org/docs/10260/Fiduciary-Principles-Accord.pdf

more effective international response in fragile and conflict-affected environments. This initiative provides the World Bank and the UN with additional resources to take forward the various UN-WB partnership agreements in fragile and post-conflict environments, through focused strategic interventions[126].

We can hope that these initiatives adopted at the highest level will be reflected in the agencies' everyday practice and will have a positive impact on the policies of individual bilateral donors. However, there is much to be done to ensure further progress: focus on preventive measures; get rid of the perception that conflict unfolds in a linear way; stop focusing on civil wars and ignoring other forms of violence; and undertake measures on the regional and global levels to mitigate the impact of external stresses on fragile states, including cross border counter-narcotics and counter-money laundering initiatives.

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Instability and conflicts remain key development challenges. They will remain as such for many decades to come. Request for social change that provoked the Arab upheavals, the financial crisis, and the combination of demographic and environmental challenges are only some of the factors that create a real threat of proliferation of fragility and conflict among middle-income countries. For a long time donors discriminated against fragile states thinking that the potential of aiding the countries with weak institutions was limited. However, in recent years the evidence has been growing that aid to fragile states can deliver results even in such extreme circumstances. For instance, the World Bank's annual evaluation report for 2011 found that outcome ratings for its projects in fragile states do not score significantly lower than those in other countries, with a 70 percent satisfactory rating compared to an institution average of 76 percent.

Similarly, a recent report based on the experience in fragile states of the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) found that their grants performed well across all measures. GFATM's active grants in fragile states achieved 83 percent of their targets on average, which is only a fraction lower than the 88 percent average for stable countries [Chandy 2011, p.4]. This means that donors have already drawn some lessons and made corrections of mistakes. The problems with providing assistance to fragile states remain. However, the level of financial, temporal, and intellectual resources that are spent now on developing methods of addressing them, such as scaling-up projects and extending the timeframe of engagement, concentration on several key sectors, and innovative risk management allow hope that the donors' interventions in such countries will become much more effective in the future.

126 World Bank – United Nations Fragility and Conflict Partnership Trust Fund. URL: http://go.worldbank.org/PECEZEQFR0

SELF-CHECK QUESTIONS

1. Which ideas form the basis of the international consensus on providing assistance to fragile states?
2. What are the core components of the standard approach to difficult partners?
3. How did the principles of engagement in fragile states evolve?
4. What is specific about the planning of interventions in fragile countries?
5. What recommendations on prioritizing and sequencing of activities are outlined in the World Development Report of 2011?
6. What are the main advantages and shortcomings of providing assistance to fragile states through state/non-state channels?
7. What are the tools to minimize risks associated with implementation of aid programs in fragile states?
8. What are the main causes of higher volatility of aid to fragile states?
9. Which mechanisms can donors use to scale-up programs and increase the predictability of aid to fragile states?
10. Please, give examples of the whole-of-government and whole-of-system approaches.

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PART IV

INTERNATIONAL DEVELOPMENT ASSISTANCE IN DIFFERENT SECTORS

The fourth and last part of the set of lectures sheds the light on providing development assistance in specific spheres such as production, including aid for trade; infrastructure (transport, energy, information-communication technologies; social sectors (education, health, water supply, sanitation); and the environment. The lectures identify the most relevant challenges that the international community faces in each of the aforementioned spheres at the beginning of the 21st century, the main directions of assistance, as well as specific issues of monitoring and impact evaluation of programs and projects. The lectures of this part contain numerous specific examples taken from bilateral and multilateral donors' experiences of engagement in various countries.

LECTURE №12

PRODUCTION

Lecture outline

1. **Key challenges of development of production sectors in developing countries**
2. **Role of global value chains in promotion of economic growth in developing countries**
3. **Role of ODA in attracting FDI to production sectors in developing countries**
4. **Key dimensions of aid for trade**
5. **Role of microfinance in the development of production sectors in developing countries**
6. **Aid to agriculture**

1. Key challenges of development of production sectors in developing countries

Promotion of sustainable economic growth is a key element of poverty reduction and raising living standards in developing countries. The production sectors include agriculture, industrial production, extractive industries, and tourism.

One of the key changes in the composition of ODA flows is the decrease in the share of aid allocated to the production sectors and the increase in share of ODA to the social sectors, especially health and education. By the mid-2000s, the share of ODA allocated to production sectors was reduced by half in comparison with the early 1990s (from 22 percent to 11 percent) [World Bank 2008]. This trend was accompanied by an increase in foreign direct investments and loans provided by multilateral development banks. Regional development banks are very active in providing financial support for ensuring competitiveness of local production.

The development of the production sector and the fostering of economic growth in developing countries brings numerous challenges. These challenges are widely discussed in the expert community at the national and international levels. It is important to point out the following:

First, production development must be oriented toward increasing the income of the population and of its households. Moreover, ensuring the growth of wealth is a key element in addressing grave social problems that developing countries are facing currently. To solve them, it is necessary to support the development of manufacturing and to attract a qualified labour force in order to ensure the competitiveness of the businesses which are dependent on technologically supported industry. This implies increasing the participation of developing countries in international technological exchange.

Another problem arises which is that ensuring the access of companies from developing countries to modern technologies that are compatible with environmental standards and which mitigate the effects of degradation of the environment. Within the context of pro-

poor economic growth, some questions arise about how justly revenues are redistributed. Does economic growth increase living standards of only one group of the population? Research conducted in recent years in several developing countries identified factors which influence both the increase and the decrease of inequality. Growth in inequality can be caused by disproportionate distributions of land, and in levels of education. A high level of completing primary education contributes to a decrease in inequality, and an increase in income of the poorest in developing countries. The second feature emphasized by experts is the decisive role of the agriculture sector in poverty reduction. The growth in other sectors did not have such a major impact in these countries. This is explained by the fact that most aid recipient countries are primarily agricultural.

Second, developing countries have been facing urgent challenges of food security, malnutrition, and hunger. According to the FAO report on food security, a total of 925 million people were still estimated to be undernourished in 2010, 80 percent of whom are in developing countries[127]. In spite of all the efforts undertaken by the international community, there has been no substantial progress in addressing this challenge. In recent years the situation has been aggravated by the increase in urbanization, in food availability crises that led to growth in food prices, and in economic crises that have led to decreases in income and food consumption. The hunger problem can be partly solved by increasing the effectiveness of agricultural production. In the context of the contraction of farm land and the decrease in water resources that can be used in agriculture, finding and promoting the means to increase in agricultural productivity becomes a key factor in development. In most developing countries increases in productivity will be determined by the level of mechanization and the scope of the use of biotechnologies. The technological opportunities created by the "green revolution" have not solved the food security problem. Biotechnologies have been gaining in importance, but debates on their possible negative impact on human health are still ongoing. However, according to experts' estimates, irrespective of the high potential of biotechnologies to increase food security, the scope of their use in developing countries remains limited[128].

Third, economic growth is impossible without an adequate level of infrastructure development. Today, the level of development in energy and transport systems and in information and communications technologies (ICT) in developing countries remains low. It restrains substantially the ability of these countries to participate in the international division of labor, and lowers their competitiveness on world markets. As for a relatively new segment of infrastructure, information and computer technology (ICT) helps increase the effectiveness of commercial and production activities of companies and ensures the development of services in developing countries; notably, in tourism, computing, education, and banking services. Moreover, the promotion of economic growth in developing countries is facilitated directly through the extensive development of infrastructure – and indirectly – through solving some social issues that, in its turn, increases the quality of human capital

127 FAO (Food and Agricultural Organization). 2010. The State of Food Insecurity in the World. 2010. Rome: FAO. URL: http://www.fao.org/docrep/013/i1683e/i1683e.pdf

128 Tonukari, Nyerhowo, and Douglason G. Omotor. 2010. "Biotechnology and Food Security in Developing Countries." Biotechnology and Molecular Biology Reviews 5 (1): 013-023. p.17

in these countries. Empirical studies show that the level of social development, notably, the health and education systems, plays a significant role in contributing to sustainable economic growth[129] and attracting foreign direct investments.

Fourth, there is need to increase the effectiveness of the participation by developing countries in international trade. Although this issue, like the aforementioned ones, has been on the international agenda for decades, the participation of the least developed countries in the international division of labor remains extremely low. According to the World Bank experts, most countries of Sub-Saharan Africa can not get preferential access to the markets of developed countries.

2. Role of global value chains in promotion of economic growth in developing countries

One of the directions for international development assistance to the production sectors of Southern countries is to implement the global value chains concept. Global value chains help to improve technological exchange between developed and developing countries, and contribute to access to new technologies and materials by small businesses from developing countries. However, the role of companies from these countries remains limited when it comes to designing and marketing goods. There are two types of value chains – one with a dominant position of the buyer and the other one with the dominant position of the seller. In most cases global value chains with participation of developing countries are buyer-oriented – the volume of the production of certain goods is determined by the state of world markets for these goods or services. Experts point out that broadening the participation of producers from developing countries in global value chains increases the competitiveness of individual companies and improves the production clusters in these countries.

The integration of companies from developing countries into global value chains not only increases their production of goods and services but supports poverty reduction. It also ensures increased participation of these countries in the international division of labor. Attracting foreign direct investments to developing countries, aid for trade, and micro-finance also helps in the implementation of this concept.

3. Role of ODA in attracting FDI to production sectors in developing countries

UNCTAD studies the role and growth of FDI in developing countries. Regardless of the financial crisis of 2007-2009 that led to the sharp decline in economic activity, developing countries accounted for 46 percent of global FDI in 2010, US$574 billion [UNCTAD 2011, p.3]. More than 35 percent of this amount went to countries in the South and South-East Asia, and Latin America, only 4 percent to African countries. The 2000s saw a remarkable increase in FDI to LDCs due to prices increases on the world commodity markets, and implementation of economic reforms. Another source of increase in the volume of FDI

129 Baldacci, Emanuel, Clements, Benedict, Gupta, Sanjeev, Cui. Qiang. 2004. "Social Spending, Human Capital, and Growth in Developing Countries: Implications for Achieving the MDGs". IMF Working Paper. Washington, D.C.: IMF. URL: http://cdi.mecon.gov.ar/biblio/docelec/fmi/wp/wp04217.pdf

to these countries was provided by other developing countries. After the beginning of the economic crisis, and the resulting decrease in world demand, this trend reversed. Overall, LDCs accounted for only 2 percent of global FDI inflows [UNCTAD 2011, p.74].

The practice of attracting foreign direct investments has a significant potential to secure the social development of the population of a recipient country, to improve their commercial practices through forcing national companies to comply with international standards of production and service delivery, and to increase productivity through transfer of modern technologies. This helps spur diversification of national production and increases competition in internal markets. However, the role of transnational corporations (TNC) in resolving environmental problems of developing countries remains debatable. Actual practice shows that the issue of corporate social responsibility has been gaining in relevance in developing countries.

Since 2005 foreign directs investments have exceeded bilateral ODA. However, ODA remains one of the key tools to support production development in the least developed countries. In the context of attracting foreign direct investments, ODA serves as one of catalysts that helps boost social capital and develop infrastructure. According to the UNCTAD experts, with a gradual increase in the level of economic development in recipient countries, foreign direct investments promote development because they help increase employment rates, raise the qualification of the labor force, and ensure the transfer of technologies and management skills. All this will eventually leads to poverty reduction.

4. Key dimensions of aid for trade

Another component of providing support to production sectors in developing countries is aid for trade. Aid for trade has become one of the key priorities for both donors and recipients. Many developing countries continue to confront the need to diversify exports and to find new markets. According to the estimates of World Bank experts, the share of Latin America in the international trade over the period of 1970-2005 remained constant at about 5 percent. For the countries of Sub-Saharan Africa, it dropped down from 2 percent to 1 percent[130].

According to the OECD, aid for trade accounts almost for one third of gross ODA volumes. In 2009 the overall volume of bilateral and multilateral aid for trade increased by 60 percent and amounted to US$40 billion in comparison with the baseline period 2002-2005[131]. The Aid for Trade Initiative endorsed at the ministerial meeting of the WTO member countries in Hong Kong in 2005 is implemented in accordance with provisions of the Paris Declaration and is aimed at increasing the effectiveness of developing countries' participation in international trade. The Aid for Trade programs include a wide range of activities, including technical assistance, support for infrastructure development to ensure developing countries' participation in the international division of labor, boosting the competitiveness of producers of goods and services, and providing financial support for trade policy reforms, primarily, tariff reductions. About 80 percent of all Aid for Trade

130 IMF (International Monetary Fund). 2007. "Regional Economic Outlook. Sub-Saharan Africa, IMF World Economic and Financial Surveys". Washington, D.C.: IMF. URL: https://www.imf.org/external/pubs/ft/reo/2007/afr/eng/sreo0407.pdf

131 OECD/WTO. 2011. "Aid for Trade at a Glance 2011: Showing Results". OECD/WTO, Paris – Geneva. URL: http://dx.doi.org/10.1787/9789264117471-

disbursements in 2009 was directed to countries in Africa (41 percent) and Asia (38 percent) with priority sectors being infrastructure development (51 percent) and building the competitive export capacity of local firms (44 percent).

In implementation of aid for trade projects, donor countries face a range of challenges that affect the effectiveness of ODA in this sector.

First, aid for trade must be closely aligned with the national strategy of economic development and its key priorities. In this context, such parameters as the impact of economic reforms and the involvement of the private sector in external trade are especially important. Second, there is an urgent need to develop infrastructure in the poorest landlocked countries where the effectiveness of transport corridors becomes crucial. Addressing infrastructure development issues determines the level of reduction of transaction costs of the delivery of goods to the international market.

Box 12.1. EU members' contribution to trade development in developing countries

The EU members spent EUR 1.01 billion on 95 Aid for Trade projects between 2006 and 2008. The projects are part of an overall commitment to Aid for Trade by the European Union worth more than EUR 7 billion every year. In addition to the commitments by the European Commission, some WTO members of the EU provide additional funds on trade facilitation projects aimed at facilitation of access of companies from developing countries to the international markets. The most effective projects were the programs implemented in Tanzania, Chad and Paraguay.

Source: EU Provides EUR 1 Billion for Trade Facilitation in Developing Countries.
URL: http://trade.ec.europa.eu/doclib/docs/2009/november/tradoc_145403.pdf

As far as evaluation of the impact of the aid for trade projects and programs is concerned, experts focus on the need to achieve the following goals: increase and diversification of exports; maximization of a country's participation in the international division of labor; and strengthening the correlation between national development and external trade policies. The impact evaluation of aid for trade projects is difficult for many reasons. First, there are conceptual boundaries for the term "aid for trade." They are blurred, partly due to the inclusion of the infrastructure component. There is no unified list of activities under this category. Another difficulty is the problem of assessing the impact of aid for trade on income growth or poverty reduction. However, it is evident that implementation of aid for trade programs impacts long-term development and increases the country's competitiveness in the world economy. There is currently no unified methodology for impact evaluation for aid for trade projects. The most elaborated methods are used by the World Bank, USAID, Sida, and the EU.

5. Role of microfinance in the development of production sectors in developing countries

Expansion of microfinance in the Southern countries supports development of private sector and service consumption growth (especially when it comes to education and health services). Microfinance is oriented at the poorest population of developing countries

involved in street trade, the artisan industry, and service delivery. Microfinance also supports agriculture and helps engage farmers in trade and food industry activities. Multilateral institutions, national aid agencies, and NGOs play active roles in expanding the outreach of microfinance. According to estimates of the Asia Development Bank (ADB), in 2007 95 percent of the 180 million poor households in the Asia Pacific region did not have access to credit. Therefore, microfinance is recognized as an effective tool of poverty reduction and development assistance. By the end of 2006, the ADB had approved 34 microfinance projects and 20 projects with microfinance components. These projects involved US$1.012 million in loans and US$6 million in grants which took place in 16 developing member countries (DMCs)[132].

6. Aid to agriculture

Development assistance to agriculture plays a large role in the promotion of economic growth in developing countries since a significant part of the population is involved in agriculture. In Sub-Saharan Africa and Asia, more than 55 percent work in agriculture, whereas 80 percent of the rural population in African countries belong to the poorest category[133]. In spite of the dominant role of agriculture in the national economies of developing countries, undernourishment remains one of their most serious problems. In recent years, against the background of food and economic crises, this issue has become even more urgent. The prices for agricultural products peaked in February 2011, and remained very high in June of 2012 (only 7 percent below the record level). Difficult climate conditions, dislocations between the demand for agricultural products and their supply, population growth, changes in the composition of demand and increased production of biofuels combined to slow the decrease in prices and kept them from dropping down to the pre-crisis levels. According to FAO an OECD experts, food prices will go down in the mid-term future but not to pre-crisis levels. The economic crisis that followed soon after the food crisis led to a lowered rate of employment and a corresponding decrease in income. It affected directly expenses related to the purchase of food. Food represents the largest share of households expenses for poor people in developing countries.

Another problem of agriculture development in developing countries is low productivity caused by an insufficient level of agricultural mechanization and the limited use of new technologies. In Africa, less than 1 percent of farmland is worked by tractors, and only 10 per cent is worked by draft animals. Thus nearly 90 percent is worked by hand from initial ploughing to planting, weeding, and harvesting[134]. In Africa only 7 percent of farmland is covered by irrigation systems, in Latin America by 10 percent, and in South-East Asia by 41 percent. With the elimination of governments subsidies, fertilizer use has dropped sharply in most developing countries. The lowest level of fertilizer use is in Africa – an average of 30 kg. of chemical fertilizer per hectare of farmland for an entire growing season. The practice of using biotechnologies that are regarded as one of the most efficient ways of ensuring food security in developing countries is even more limited.

132 ADB (Asian Development Bank). 2007. "Effect of Microfinance Operations on Poor Rural Households and the Status of Women". ADB, Manila. URL: http://www.adb.org/Documents/SES/REG/SST-REG-2007-19/SST-REG-2007-19.pdf#page=6

133 UNCTAD. 2010. Technology and Innovation Report 2010. UNCTAD, Geneva. p. 46. URL:http://www.unctad.org/en/docs/tir2009_en.pdf

134 Ibid. p.74

Although agriculture plays one of the key roles in ensuring economic growth in developing countries, the last decades have seen a decrease in the share for developing countries in the world trade of agricultural raw materials and food supplies. According to the FAO estimates, the share for developing countries in the world exports of these goods dropped from 40 percent in 1960s to 30 percent in the first decade of the 21st century. Their share in imports of agricultural raw materials and food products has increased from 25 percent to 30 percent for the same period. The most difficult situation is observed in the sphere of external food trade in the least developed countries. They have become net importers of agricultural goods. The share of agricultural goods in the composition of the LDCs' imports increased by up to 25 percent[135].

Food aid

In the current economic conditions where the need to ensure intensive economic growth in agriculture has become a priority, the focus shifts from food aid to attracting investments to the agriculture and implementing sector-wide approaches. Currently, the question is widely debated "To what extent does food aid assist development of the poorest countries of the world?" According to the OECD-DAC methodology, food aid is put under the category of "Aid to agriculture and food-security-related aid".

Food aid historically was one of the earliest aid instruments. However, its role as an instrument of promoting development has been critically revised in the last decades. Food accounted for over 20 percent of all official development assistance in 1960s. Over the last 40 years, however, the absolute value and relative importance has declined dramatically to less than 5 percent of total ODA. Prior to the establishment of the World Food Programme (WFP) of the UN, the United States and Canada accounted for 90 percent of all food aid. Currently, around half of food aid is provided by the WFP. At the same time, food aid in-kind retains a large share of the ODA pool from such established donors as the United States and the EU countries. These countries account for 80 percent of in-kind bilateral food aid. The United States provided around 40 percent of food aid delivered through the channels of WFP. The main recipients of in-kind food aid are the countries in Sub-Saharan Africa, Mongolia, North Korea, and the countries of Central America.

Food aid is comprised of three categories. The first category is program aid. Program aid is subsidized deliveries of food to a central government that subsequently sells the food and uses the proceeds for whatever purpose (not necessarily food assistance). The second category is project food aid. Project food aid provides support to field-based projects in areas of chronic need through deliveries of food (usually free) to a government or NGO that either uses it directly (e.g., Food for Work, school feeding) or monetizes it, using the proceeds for project activities. The third category of food aid is emergency and humanitarian relief. This form of aid consists of free deliveries of food to government and non-governments agencies responding to crises due to natural disasters or conflict.

135 FAO. The State of Food and Agriculture. URL: http://www.fao.org/publications/sofa/en/

Box 12.2. EU food aid to Ethiopia in 1997-2003

Ethiopia while being one of the poorest countries in the world is one of the largest recipients of food aid. The gross volumes of food aid in-kind provided to the country in 2003 amounted to 3.4 million tons. The United States and the EC are the largest donors in this sector. The EC's share amounted to 775 million tons – about 23 percent of all food aid received by Ethiopia in 1997-2003. Moreover, since the beginning of the program in 1997, the volume of resources allocated for these purposes has constantly grown. Despite the fact that agricultural traditions in Ethiopia have deep historical roots, productivity remains very low. Therefore, in the last 30 years the country constantly faced food deficits. In 2002 agriculture accounted for 54 percent of the GNI, but 44 percent of the population were suffering from undernourishment. In this situation it was critical to launch programs oriented at long-term development of the agriculture sector in the country to reduce the dependence of population on in-kind food aid. In 1996 the Ethiopian government developed and adopted a national food security strategy. However, food aid in-kind still accounts for 80 percent of ODA to the agriculture sector. The effectiveness of funded aid programs is limited by the outdated technologies used in agriculture, rapid (even in comparison with other countries in Sub-Saharan Africa) population growth, environmental degradation, and the low level of institutional development.
According to EC experts, in-kind food aid is regarded as one of the key components in ensuring food security in Ethiopia.

Source: Thematic Evaluation of Food Aid Policy and Food Aid Management and Special Operations in Support of Food Security. Field Report for Ethiopia.
URL: http://ec.europa.eu/europeaid/how/evaluation/evaluation_reports/reports/sector/951657_vol4_en.pdf

When analyzing the expansion or practice of providing food aid as an instrument of development promotion the expert community faces two problems. The first problem is the role of such aid in the long-term development of the agricultural sector in the recipient countries. The second problem is the role of food aid as an instrument of donor country trade policy and its compliance with WTO regulations.

When examining the first problem, it is worth mentioning that this form of foreign aid proved to be effective in solving humanitarian problems in the circumstance of natural disasters and of military conflicts. Food aid ensures food security rather quickly. Food aid in these conditions not only saves populations from starvation and hunger but slows the growth of poverty in these countries as well. It lowers the risk of butchering livestock, eating seeds intended for the next planting season, and forced rural-to-city migration. Food aid also assists in making possible a partial redistribution of budget monies by reducing the need to import food. However, the reality raises concerns that these monies can be directed not only to the social-economic development of the country, but to the purchase of arms. It must be acknowledged, however, that even in the conditions of extreme poverty and military conflict food aid to the least developed countries still assists their development to a certain extent, and prevents as much as possible hunger, malnutrition, and starvation.

The second problem related to assessing the role of food aid as an instrument of international development assistance is that it is used as a tool of trade policy primarily in the interests of a donor country. Although food aid volumes do not exceed 2 percent of overall food imports in developing countries, and account for only 5 percent of global ODA, according to the OECD estimates, this form of aid has a huge importance for certain

WTO members[136]. For example, U.S. food aid (in certain goods) amounts from 7 percent to 20 percent of exports of these goods. On the one hand, food aid can be regarded as one of the instruments of support subsidy for national producers of agricultural production in the donor countries. On the other hand, food aid restrains opportunities for other developing countries to participate in international food trade. The Doha round of trade negotiations put emphasis on the provision of untied food aid that will help the development of the agricultural sector in the global South. At the same time it is widely acknowledged that it would be impossible to abandon this form of ODA given its extremely high effectiveness in crisis situations when an immediate international response is necessary.

In the last decade, food aid has been increasingly regarded as one of the key components in the implementation of a sector-wide approach to agriculture in developing countries. According to the OECD-DAC methodology, food aid is currently classified as an aid flow to agriculture that does not ensure directly the development of this sector, but helps to ensure food security in the ODA recipient country. Consequently, it affects indirectly the mid-term and long-term dynamics of growth in this sector.

According to OECD-DAC estimates in 2007-08, total annual average aid commitments to agriculture amounted to US$7.2 billion. Since the mid-1980s, aid to agriculture has fallen by 43 percent but recent data indicate a slowdown in the decline, and the beginnings of an upward trend. Among DAC members, the largest donors in 2007-08 were the United States (on average US$1.4 billion per year), Japan (US$1 billion) and France (US$582 million). These three countries account for more than 40 percent of all food aid flows. Despite the fact that bilateral aid to agriculture increased at an average annual rate of 13 percent (in real terms), its share in global ODA dropped down to 6 percent. A number of individual donors extend relatively high proportions of their aid to agricultural projects: Finland (11 percent), France and Switzerland (10 percent each), Belgium and Japan (9 percent each). These are well above the 6 percent DAC average for the years 2007-08. Aid flows to agriculture primarily targeted Sub-Saharan Africa (31 percent) and South and Central Asia (22 percent). For both these regions, the share has increased over the last decade. In 2008 25 percent of ODA to the sector was distributed among 5 countries. For the DAC members (including EU institutions), six of the top ten recipients are in Asia, thanks partly to large Japanese loans to India and China, and to large grants from the United States to Afghanistan (to reduce illicit drug cultivation) and to Iraq (to improve agricultural productivity)[137].

The largest share of funds provided as ODA to agriculture was delivered as grants, primarily to the least developed countries. The share of loans amounted to less than 30 percent over the same period. These loans were provided to middle-income developing countries.

The priorities of aid to agriculture have also changed over the last decade: 30 percent of the total provided was for support of agricultural production; the share of programs aimed at improving agricultural policies in the recipient countries dropped down to 19 percent; the share for fisheries and forestry remained at the same level, 6 percent and 11 percent respectively.

136 Clay, Edward. 2006. "Food Aid and the Doha Development Round: Building on the Positive". URL:http://www.fao.org/righttofood/KC/downloads/vl/docs/AH178.pdf

137 OECD-DAC.2010. "Measuring Aid to Agriculture". Paris: OECD Publishing, URL: www.oecd.org/dataoecd/54/38/44116307.pdf

Against the background of food and economic crises that undermined the positions of developing countries on the international markets for agricultural raw materials and food supplies, donor countries were confronted with two challenges – the need to increase the levels of aid to agriculture, and the need to increase its effectiveness.

Impact evaluation of aid to agriculture projects

An increasing proportion of aid to agriculture programs is implemented in accordance with the sector-wide approach concept that shifts the focus from stand-alone projects to aid programs oriented toward a more comprehensive support of the sector. Given that all projects must be coordinated and linked to each other, it brings new challenges in the sphere of strategic planning and management for both donors and recipients. The main goal is to increase the effectiveness of ODA to ensure sustainable long-term development of the sector.

An important role in the coordination of donors' efforts in implementing SWAP in the agricultural sector is played by the Global Donor Platform for Rural Development. Experts from the World Bank, FAO and internal experts of the Platform developed 86 indicators for the monitoring and evaluation of projects aimed at supporting agricultural development in the short, medium and long-term[138]. These criteria have been further elaborated by individual donors.

One of the most systemic approaches is a method developed by the European Commission which proposed its own algorithm of project impact evaluation based on the aforementioned indicators[139]. This approach consists of the following.

Elaboration and implementation of effectiveness criteria to aid interventions in agriculture requires the division of all recipient countries into three main categories depending on the role of this sector in economic growth and poverty reduction. World Bank experts identified three groups: agriculture-based economies, transforming economies – countries where the economic growth is increasingly determined by the development of manufacturing, and urbanized economies where the poor population is not concentrated in the rural regions, and agriculture is not the main driver of economic growth with less than 20 percent of the population employed in this sector[140].

The first group is represented mostly by the countries in Sub-Saharan Africa. The most urgent problems are ensuring food security through development of the national agricultural sectors and increasing the competitiveness of small farmer businesses.

The second group covers the countries located in the South-East Asia, North Africa and the Middle East. Strategic goals of sector development in these countries are increasing productivity through the use of modern technologies, and supporting employment growth in related sectors, for example, in trade and transport.

138 GDPRD/FAO/World Bank. 2008. "Tracking Results in Agriculture and Rural Development in Less-than-ideal Conditions. A Sourcebook of Indicators for Monitoring and Evaluation". URL: ftp://ftp.fao.org/docrep/fao/011/i0380e/i0380e.pdf

139 EC (European Commission). 2009. "Outcome and Impact Level Indicators. Agriculture&Rural Development". URL:http://ec.europa.eu/europeaid/how/evaluation/methodology/impact_indicators/wp_agri_en.pdf

140 World Bank. 2008. "World Development Report 2008. Agriculture for Development." Washington, D.C.: World Bank, p. 30.

Box 12.3. FAO-Sudan Cooperation in 2004-2009

The implementation of a program of assistance to agriculture in Sudan in 2004-2009 took place against the background of a complex social-political situation which brought about long-standing civil disobedience and military conflicts that started since the proclamation of independence in 1956.

Between 2004 and 2009, FAO implemented in Sudan a complex cooperation program in terms of the mix of sector interventions and the challenging operating environment. Over this period, the overall FAO portfolio amounted to US$200 million. Half of the interventions were relief to the victims of a conflict in Darfur that started in 2003 in which 2.5 million people became refugees. The main modes of delivery of FAO assistance have involved providing direct assistance and capacity building for vulnerable households (returnees, displaced persons, affected host communities) through partnerships with non-government organizations, support for the generation of food security information, coordination of the food security and livelihood resources, and more recent efforts to strengthen government delivery of services through capacity development focused at the state level. In the implementation of SWAP the following priority spheres were identified: crop raising, cattle-breeding, fishery, forestry, and food security. To increase the effectiveness of assistance and coordination between donors, the number of which has grown substantially in the period under evaluation, four funds were established for funding specific projects (Common Humanitarian Fund, Multi-donor Trust Fund, Southern Sudan Recovery Fund, Darfur Peace and Sustainability Fund. Significant volumes of ODA were provided to Sudan by China, Saudi Arabia and other countries of the Persian Gulf.

The FAO evaluation report states that military conflicts, political instability and natural disasters limited the effectiveness of the organization's activities. However, FAO activities were considered appropriate and timely and well-adapted to the complex political and socio-economic situation in Sudan. The central problem was that, in spite of the experts' commitment to SWAp, foreign aid was achieving tactical goals but in some cases was not properly aligned with strategic plans of the national government. For example, the government of Sudan regarded an increase in the mechanization of labor as one of its key priorities and claimed the FAO assistance in achieving this goal to be insufficient. The impact of programs was limited by inefficient strategic management. In the situation of political instability not all goals of agricultural cooperation between FAO and Sudan were clearly defined. FAO did not fully take into account the priorities of sector development outlined by the Sudan government. The extent of cooperation between FAO and state institutions at all levels was insufficient due to the absence of representatives of the organization on the ground in some regions. The problem was also exacerbated by the administrative management hurdles within the organization.

The evaluation report contained some recommendations. Experts drew attention to the need to update and finalize that the FAO country strategy (NMTPF), work to better understand the drivers of the conflict in Sudan and to build its program on drivers of peace; recognize the specific contribution that it can make towards peacebuilding and to breaking the links between food insecurity, conflicts, cattle rustling, grazing, land, water and fishing rights disputes, etc. make an effort to play a significantly greater role in promoting and scaling up sustainable agricultural practices and environmental protection and to provide technical assistance and facilitate knowledge exchange.

Source: FAO. 2010. Evaluation of FAO-Sudan Cooperation (2004-2009).
URL: http://www.fao.org/pbe/pbee/common/ecg/389/en/SUDAN_CE_REPORT_FINAL_4Mar10.pdf

Finally, the third category includes the countries of the Eastern Europe, Latin America and Central Asia where the focus shifts onto the development of agro-business, the expansion of utilization of agriculture raw materials for other purposes, primarily for production of bio-fuels.

While implementing aid projects in agriculture it is important to consider the extent of the use of public goods, institutional development, and specific features of national macroeconomic policies. The European Commission developed a specific set of criteria for impact evaluation of projects in the agricultural sector. These criteria include: mitigation of agricultural price volatility; improved access to markets, land, water, seeds, and fertilizers; access to information and capital; and better management of natural resources. Another set of indicators include: employment in agriculture and non-farm activities, increased production, and improved quality of products (compliance with international marketing standards). Specific impacts cover the positive and the negative; primary and secondary long-term effects produced by a development intervention, directly or indirectly; intended or unintended consequences; improved rural business income; greater affordability of food; and increased trade.

When conducting impact evaluation of aid to agriculture projects it is important to take into account not only the social-economic conditions in a recipient country, but the level of political stability as well. In the context of military conflict the possibilities are much lower of providing comprehensive assistance to agricultural development in the least developed countries. That brings the need to provide food aid and ensure peaceful conflict resolution to the forefront of the development assistance agenda. One of the examples of assistance to agriculture in such difficult circumstances is the FAO's experience in Sudan (See Box 12.3).

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Therefore, aid to agriculture in developing countries implies an elaboration and implementation of a comprehensive program of activities aimed at assisting production growth in traditional segments of this sector. The nature of cooperation between donors and national institutions and an orientation toward providing food aid for the purposes of ensuring food security in a given country play a huge role in ensuring the effectiveness of assistance to the agriculture sector.

SELF-CHECK QUESTIONS

1. What are the main problems of production development in developing countries?
2. What is food security? What is the role of ODA in ensuring food security in developing countries?
3. Please, name the main specific features of involving developing countries in global value chains?
4. Please, describe the role of ODA in attracting foreign direct investment to developing countries?
5. What are the main dimensions of implementation of the aid for trade concept?

6. What is the role of microfinance in supporting production growth in developing countries?
7. What are the main problems of agriculture development in developing countries?
8. What is the significance of food aid in development assistance to the global South?
9. What does the geographic distribution of ODA to agriculture look like?
10. Please, describe the algorithm of impact evaluation of sector programs aimed at assisting agriculture development.

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LECTURE №13

INFRASTRUCTURE

Lecture outline

1. **Key problems of infrastructure development in developing countries**
2. **Key directions for development of energy systems in developing countries and approaches to impact evaluation**
3. **Key directions for development of transport systems in developing countries and approaches to impact evaluation**
4. **Specifics of ICT-based infrastructure development and approaches to impact evaluation**

1. Key problems of infrastructure development in developing countries

Infrastructure is one the key components of economic development in all countries of the globe. The problems that stem from insufficient levels of infrastructure development influence directly and indirectly poverty levels and living standards in developing countries. Physical infrastructure is used here to refer to three sectors under the DAC classification for economic infrastructure: (i) transport and storage; (ii) communications; and (iii) energy [World Bank 2008]. Water and sanitations systems are categorized as a separate group. The problems of infrastructure development have been on the international development agenda for decades. The term "infrastructure" has been broadened and diversified. Recent years have seen the emergence of a totally different segment of infrastructure in the form of communications technologies. Energy and transport have also been undergoing profound transformation under the influence of scientific-technological progress. The growing role of renewable sources of energy has affected all countries of the globe – both developing and developed. This brings new challenges and opportunities for social-economic development. The level of motorization of the level of transportation systems of developing countries has been increasing. On the one hand, this has contributed to promoting economic growth. On the other hand, this has led to environmental degradation. For example, the developing world has been the last bastion of the use of leaded gasoline in addition to the other problems associated with the use of fossil fuels.

Drawing on the need to take into account principles of environmental security, social acceptability, and financial resilience of the country, experts identify several problems of infrastructure development in developing countries.

First, the role of infrastructure in poverty reduction has grown, as well as the need to provide access to its basic components for the growing number of people of the Third World if they are to be able to make a leap out of poverty. According to the World Bank estimates, 1.3 billion people do not have access to electricity, about 1 billion people have to use hard fuel (primarily firewood or biomass) for heating and cooking[141]. Especially in bad weather, this cooking occurs indoors without adequate ventilation. In rural sections

141 Infrastructure // World Bank [Official website]. URL: http://go.worldbank.org/83APZPXL80

of China and Mexico, by way of example, the particulates in the smoke from open fires without ventilation remain a major cause of childhood mortality, and a major cause of morbidity (illness) for women.

Second, there is an urgent need to increase the effectiveness of financing aimed at building new infrastructure projects, as well as providing for the maintenance and servicing for existing facilities. A large potential is seen in the development of public-private partnerships (PPPs) and in attracting foreign direct investment. The level of infrastructure development in turn matters considerably in attracting foreign direct investment to the least developed countries. According to UNCTAD experts, ODA directed to the implementation of infrastructure projects and in support of social development might become a catalyst for attracting foreign direct investments to other sectors of an economy.

Third, apart from building physical infrastructure, it is crucial to ensure accessibility of transport, energy, and information services. For example, transport costs remain one of the main obstacles to expansion of participation in international trade by developing countries. Problems which obstruct the development of transport systems play a decisive role in restricting economic growth, especially of landlocked countries.

One of the core problems of infrastructure development in developing countries is a gap in the use of communication technologies between countries. This gap has been labeled the "digital divide." The "digital divide" refers to inequalities between developed and developing countries, as well as within groups of developing countries in terms of access to, use of, or knowledge of information and communication technologies (ICT). Finding a solution to this problem is one of the major directions for promoting economic growth in the least developed countries. Moreover, the use of electronic trading infrastructure may allow a significant increase in the level of integration of these countries into the world economy.

One of the possible solutions to the problem of financing infrastructure development projects in developing countries is the establishment of public-private-partnerships (PPPs). This form of cooperation has proven to be effective both in construction of new infrastructure facilities, and in the maintenance and servicing of the existing ones. PPPs, which have a wide range of organizational models, have been growing in number in developing countries. In the sphere of assistance to infrastructure development, PPPs ensure the cooperation between the state and private businesses in construction and management of transport and energy systems, utilities, and telecommunications.

PPPs in infrastructure can be organized as joint ventures with the participation of national and transnational companies, and with different financial arrangements for construction and management of objects. PPPs with foreign capital participation can be successful if a state has clear policies in the sphere of attracting foreign direct investment, and a transparent system of decision-making and selection of participants. PPPs are attractive for private businesses in developing countries because they allow for minimization of risks and can ensure higher returns on investments.

The role of private capital in infrastructure development in developing countries is reflected in the "*Private Participation in Infrastructure (PPI) Project Database*." According to it, more than 4,600 infrastructure projects in 137 countries were implemented using private investments between 1990 and 2008. The geographical and sector distribution has been quite uneven. More than half of new projects were implemented in the countries of

Latin America, the Caribbean, and in the Asia-Pacific region. In terms of sector distribution, the share of private investments going to new projects in energy and telecommunications has been growing.

Debates about the effectiveness of PPPs in infrastructure development cover such topics as reducing prime investment costs, increasing the effectiveness of systems, and the extent of potential flexibility of state policies. In the case of delegation to private companies of the role of distribution of access to infrastructure, the infringements of the rights of the poorest population is quite possible.

There are positive and negative consequences of project implementation in the form of PPPs for national economic development. The positive consequences include: broadening the use and availability of services and their increased quality; an increased effectiveness of project implementation; a potential positive impact on prices; and a widened access by the poorest groups of a population to a new infrastructure. The private sector can use the technological advantages and new infrastructure effectively. If there are consistent and fair price policies and fiscal discipline, PPPs allow for increases in the level of investments in new projects. Ineffective management of infrastructure can lead to a lack of commercial use and bad management, and risk to profits. Properly done, the private sector in infrastructure development can bring increased quality and continuous delivery of services.

Implementation of projects through PPPs in developing countries can have negative consequences as well such as creating additional conditions for corruption. Moreover, in some cases, pricing policies used by some private service providers restrain the access of the poorest population to infrastructure. A too significant part of the income of the poor can be required to pay for utilities, including electricity, water and telecommunications services.

Unfortunately, there is no detailed statistical information database that would allow a greater understanding of the share of projects implemented through PPPs and how they have been impacted by ODA volumes. It is evident however, that attracting private sector and transnational companies can stimulate infrastructure development in developing countries.

2. Key directions for development of energy systems in developing countries and approaches to impact evaluation

Experts identify the following problems of energy system development in developing countries.

First, a significant number of people in developing countries do not have access to electricity. This hampers economic growth quite substantially. Low levels in the development of energy systems also hinders the use of other elements of infrastructure, such as telecommunications technologies and some forms of transport. It is a lack of access to traditional electrical grids that hinders the utilization of personal computers by households and companies in some regions. The level of electricity consumption has a strong correlation with income[142]. Today, many economic activities are impossible without

142 Feinstein, Charles. 2002. "Economic Development, Climate Change, and Energy Security – The World Bank's Strategic Perspective." Energy and Mining Sector Board Discussion Papers. 3, Washington, D.C.: World Bank, p.1

the use of energy infrastructures and electricity. Some industries are totally dependent upon a continuous supply of energy. Economic growth that provides for poverty and unemployment reduction also depends to a large extent on the level of development and the efficiency of energy systems.

Second, the limited growth of energy systems in developing countries is caused by the lack of financing. According to estimates by World Bank experts, the development of energy systems in developing countries requires annual capital investments of US$450 billion. For securing universal access to electrical grids and meeting the basic needs in electrical power by 2030, it is necessary to invest an extra US$35 to US$40 billion a year[143].

Third, energy development has a direct impact on the environment. Environmental factors have begun to determine the process of development of the world economy. Developing countries are also affected. For most countries the most urgent energy-related problems are to increase energy availability and efficiency and a wider use of renewable resources. It is important to point out that the development of energy on the basis of renewable resources has great potential to contribute to economic growth in developing countries. It is especially important for rural regions, where even a small increase in the use of electricity has a positive impact on income growth and on the development of education and health systems, and for ensuring food security. Increased energy supplies make possible the mechanization of rural labor, the potential use of lighting to promote development of national crafts, the contribution of electricity to increased free time for women, and for improved primary education for children. Overtime the use of green technologies oriented to the utilization of renewable sources of energy can be the least costly.

Box 13.1. The World Bank's Role in Development of Solar Energy Systems in Mali

The Sub-Saharan African countries are known for the lowest level of energy system development. According to World Bank estimates, the number of regional inhabitants without access to electricity will increase from 590 million in 2008 to 700 million in 2030. Only 7 percent of Mali's rural population has access to electricity. WB Rural Access Project started in 2003 with the support of GEF and the Mali government (US$44.4 million). 2,350 solar home systems were installed in 40 communities. 636 public institutions were powered by solar PV, including 40 schools and 48 health centers.

Source: Saghir, Jamal. 2010. The Dual Challenges of Development and Sustainable Energy Service Provision: Towards a New Energy Strategy.

Developing countries have to solve problems of energy security in a comprehensive way. Developing countries, especially net importers of fuel, are highly influenced negatively by fluctuations in prices for fossil fuels. The technologies that they import also bring challenges. The low level of qualifications of labor and the low effectiveness of management who work in energy systems makes these countries dependent on providers of technology. The energy security of these countries is affected especially negatively by natural disasters (earthquakes, tsunami and floods), as well as political instability. Electrical power stations, electric lines, and oil and gas pipelines often get destroyed during military conflicts.

143 Energy // World Bank [Official website]. URL: www.worldbank.org/energy

Finding solutions to this constellation of problems is impossible without the ODA support for overcoming the deleterious effects of poverty as they are further disadvantaged by a flawed energy system. According to OECD-DAC estimates in 2007-2008, the total annual average aid commitments to energy amounted to almost US$7 billion. Among DAC members, the largest donors in 2007-08 were Japan and the United States (on average US$1.4 billion each), Germany (US$844 million) and Spain (US$261 million)[144]. It is also important to point to a noticeable change in priorities. After the mid-1980s, and up to the early 2000s, aid to energy fell by half. It rose again during the last decade, and is now close in real terms to its mid-1980s peak.

Aid to energy started rising again in the early 2000s with the adoption of the Kyoto protocol that led to increased support by donors for renewable sources of energy. Over the period 2003-08, bilateral aid to energy infrastructure increased at an average annual rate of 16 percent (in real terms). In 2007-08, more than half of the DAC countries' total bilateral aid commitments came from two donors: Japan (31 percent) and the United States (30 percent). Over the period 2007-08, the DAC members' bilateral ODA to energy was extended in the form of grants (52 percent), loans (46 percent) and equities (2 percent). The U.S. provided only grants, whereas Germany, Spain and Japan focused on providing loans. As for multilateral aid, the IMF and the EU accounted for about 90 percent of gross volumes. The bulk of multilateral aid was provided in the form of grants.

Over the period 2003-08, aid flows to energy primarily targeted Asia (61 percent), followed by Africa (26 percent). For the DAC members (including EU institutions), six of the top ten recipients are in Asia, thanks to large grants from the United States to Iraq and Afghanistan, and to large Japanese loans to Iraq, India, Indonesia and Vietnam.

Some of the major problems with past projects in the energy sphere are outlined below.

First, in some cases projects have had the wrong focus: generally the focus has been on technologies rather than outcomes. Technical and financial issues are taken into consideration, but the social issues such as land rights and cultural issues of a country or region where new electrical power facilities are to be created have not been evaluated.

Second, often the technological solutions prove to be inappropriate. The focus has traditionally been on solar power. However, other solutions may be more applicable; for example, micro-hydropower stations can be much more effectives in Asia and in the Pacific island countries.

Third, there have been failure to meet needs. Energy projects often fail to adapt to the needs of the target community. For example, in an electrification project in Indonesia, individuals wanted access to small, affordable amounts of electricity (around 20 watts, enough to power two 10-watt bulbs, providing a great improvement on candles). The smallest amount of energy the utility would offer was 100 watts — too expensive for most people who were therefore unable to take up the offer. The lack of reliability and problems of servicing and maintenance have been major concerns with past projects. Insufficient power is another frequent complaint; often, once communities have access to an energy supply, they then want to use more energy[145].

144 OECD-DAC.2010. "Measuring Aid for Energy". Paris: OECD. URL: http://www.oecd.org/dataoecd/32/57/45066235.pdf

145 AusAID. 2001. "Power for the People: Renewable Energy in Developing Countries." AusAid, Canberra. URL:http://www.ausaid.gov.au/publications/pdf/renewable_energy.pdf

The experiences of World Bank experts in the implementation of development assistance projects in the energy sector have shown that it is necessary to take into account all the aspects that directly influence their effectiveness. In turn, it is necessary to analyze the reaction of households to the prospects of using renewable resources and the impact of electrification on the productivity of companies. The next stage is to define the volume of subsidies needed to ensure continuous supplies of energy, including the use of alternative sources. It is necessary also to conduct comparative cost-effectiveness analyses of both on-grid and off-grid electrification.

One of the methods of impact evaluation of energy projects has been developed by the European Commission. According to the approach proposed by the EC, the starting point must be the relevance of ODA to energy policies of the EU, and energy security and the needs of the beneficiary country. The comprehensive evaluation method proposed by the European Commission requires a detailed analysis of effectiveness criteria for projects organized under the following three points:

First, the impact of interventions on the most vulnerable groups in developing countries plus price volatility, the reliability of contractors and the extent to which consumers trust them.

Second, a consideration of the potential negative or positive impacts on the environment. For impact on the environmental assessments, the EC uses criteria which characterize the level of preparation and environmental awareness of the civil servants responsible for energy policies; conducts the monitoring of the energy efficiency of the intervention, and evaluates the share of renewable or low CO2 energy production technologies within the intervention.

Third, it considers the level of safety and security in the use of nuclear energy. The EC introduces criteria that reflects the level of technological development of nuclear power plants, and determines whether or not the safety culture is close to international standards.

The EC system compares planned and real budget expenses and timeframes, defines the coordination and complementarity of their efforts, and takes into account formal and informal interactions, and the extent of involvement of stakeholders and national agencies. The last element is analysis of coherence and relevance to other EC policies.

3. Key directions for transport systems development in developing countries and approaches to impact evaluation

In the sphere of development of transport systems in developing countries, experts identify the following key aspects.

First, transport is one of the key elements of economic development that facilitates a country's participation in the globalized economy and the international division of labor. Transport systems ensure the movement of labor and goods and support development of both the rural and the industrial sectors. Transport systems help solve production and social issues, for example, by ensuring access to educational institutions and hospitals. The process of urbanization brings new challenges for transport systems of developing countries: more than half of the world population now live in cities. According to projections of the

Box 13.2. Evaluation of EC Support to African Countries in the Area of Energy

In 2008 the European Commission prepared a report on evaluating the EC support to the energy sector in Latin America, ASEAN, Central and Eastern Europe and African countries. Projects implemented between 1996 and 2006 were evaluated. The overall volume of allocated funds amounted to US$1.8 billion. Based on the method described above, impact assessments were conducted in all countries that received financial support from the EC. It is worth mentioning that ensuring access to energy of the poorest groups of African countries to energy had not been regarded by the EC prior to 2002 as one of priority goals of its engagement in African countries, including Ethiopia.

Electrification of rural regions of Ethiopia was carried out with support from the World Bank, the African Development Bank, and the Global Ecological Fund. Impact evaluations of programs implemented in Ethiopia showed that the EU countries' contribution to development of this sector had been quite limited. The EC implemented (with support from the World Bank) educational programs aimed at building capacity of the personnel of line ministries) and participated in electrification of rural regions of the country. The national company EEPCO requested funds to build 10 objects that would become a part of a large energy complex. Besides that, some funds had been allocated as support to the Eastern Africa Power Poll.

Analysis of the efficiency of interaction with national institutions showed that it had been primarily bilateral and sporadic. Dialogue with all national institutions responsible for energy development in the country had not been established in Ethiopia by 2006.

The same shortcoming characterized the interaction between donors. As a result, the level of information sharing was minimal which limited the opportunity to influence the formulation of national policies in the energy sector in Ethiopia. National experts from Ethiopia emphasized that representatives of the European Commission had hardly been involved in the energy dialogue. The result was a low level of contribution to the development of energy sector in Ethiopia by EU countries.

Source: ADE (Aide à la Décision économique). 2008. Evaluation of EC Support to Partner Countries in the Area of Energy. Final Report, April 2008. Evaluation for the European Commission. URL: www.ec.europa.eu

World Bank, this figure will reach 69 percent by 2050. Rapid industrialization in developing countries means that the share of poor populations in cities will grow. The issue of the development of transport systems becomes more urgent.

Second, urbanization has led to a rapid increase in the motorization of transport systems in developing countries. This in turn has resulted in sharp increases in CO2 emissions and a degradation of the environment. According to estimates of the International Energy Agency (IEA), developing countries will be responsible for 80 percent of transport combustion-related CO_2 emissions[146]. Cargo hauling and public transport will account for the largest share of emissions. Motorization will lead to an increase in the number of road accidents in developing countries. Insufficient road safety conditions cause the loss of 1 percent to 2 percent of GDP in these countries. By 2020, road accidents will become the third major cause of death in these countries[147].

146 IEA (International Energy Agency). 2008. World Energy Outlook 2008. IEA, Paris. p. 394.
147 Transport. // World Bank [Official website]. URL: www.worldbank.org/transport.

Third, the level of infrastructure development plays a decisive role in the attainment of economic growth in landlocked countries. For example, economic development in 5 of 24 countries of East and Central Africa depends on the level of development of transport corridors and of the level of infrastructure development in neighbor countries. Landlocked countries have lower GNI per capita, lower life expectancy rates, and lower social-economic indicators than their neighbors. Transport costs and failure to meet delivery terms automatically decrease the companies' competitiveness, and exacerbate the need for construction of additional storage facilities.

Fourth, the maintenance of transport infrastructure requires significant capital investments and improvement of the management of transport systems in developing countries. For example, the replacement cost of only the national roads in Tanzania is estimated at around TShs.2.6 trillion (approximately US$2.5 billion)[148]. Systematic servicing of roads significantly lowers transportation costs and relieves pressure on the national economy as a whole. The worsening state of roads increases transportation costs, increases the number of road accidents, and hinders regional economic development. According to the expert estimates, road reconstruction costs exceed by 20 times the capital investments of periodic maintenance works. To solve problems related to the development of transport systems, African countries started implementing reforms with substantial support from donor countries.

Box 13.3. Road maintenance and reconstruction in Nigeria

Systematic construction of road infrastructure in Nigeria started in the colonial period in 1925. Active road construction began in 1970s, and today their overall length is 200,000 km. However, more than 75 percent of the roads do not have surfacing. Bad weather conditions and freight traffic significantly worsen the state of roads and requires a constant increase of capital investments into their maintenance. To address these issues, a 10-year program on road reconstruction in Nigeria was developed which will require US$7 billion in investments according to the World Bank estimates. Experts from the Central Bank of Nigeria emphasize that the constant increase in transportation costs contributes to the growth of inflation. Implementation of projects of road reconstruction in Nigeria is carried out with support from the World Bank and UNECA. In the framework of "Program of Transport Development in Sub-Sahara Africa" an evaluation of the negative impact of limited transport development on poor populations was conducted in different countries, including Nigeria, and main reforms were proposed. To achieve this goal, the World Bank allocated US$272 million for the reconstruction of 636 km and the maintenance of 306 km of federal roads in Nigeria.

Source: Abdulkareem, Y. A., and K. A. Adeoti. Road Maintenance and National Development. Restructuring Paper on a Proposed Project. Restructuring for the Federal Roads Development.(Nigeria) Feb 2011.
URL: http://www.unilorin.edu.ng/publications/abdulkareemya/ROAD-MAINTENANCE-AND-NATIONAL-DEVELOPMENT.pdf

The overall approach to transport development aims at increasing: 1) investments in transport infrastructure development, building roads, railway stations, and airports; and 2) implementation of related economic reforms that directly affect the transport sector. The overall approach also concerns the improvement of management systems, enhancing transport safety, improvement of tariffs, and managing the demand for transport vehicles

148 Addo-Abedi, Frederick Y. "Challenges in Financing Road Maintenance in Sub-Sahara Africa". URL: http://www.roadsfundtz.org/web/pdf/session percent207/CHALLENGES percent20IN percent20FINANCING percent20ROAD percent20MAINTENANCE percent20IN percent20SUBSAHARAN percent20 percent20 percent20 percent20 percent20 percent20AFRICA.pdf

and services. Moreover, developing countries are faced with the problems of developing transport and related infrastructure and the regulation of transportation flows while containing growing demand and introducing hard and soft restrictions on the use of transport vehicles.

The analysis of outcomes of transport-related aid programs and projects is conducted with the help of cost-benefit analysis and the evaluation of the impact on development of national transport infrastructure and on poverty levels. Thus, the analysis of projects in the sphere of urban transport development evaluates impacts on the movement of labor, the localization of enterprises, and employment. The impact of programs on ensuring access to health, education, and other services, as well as on land prices is also evaluated.

It is important to emphasize that the impact of transport-related development programs on poverty reduction is very difficult to assess. Transport sector development is related to poverty reduction indirectly, through widening access to social services, to enhancing the movement of labor, and to increase economic productivity.

The methods of impact evaluation of projects in the sphere of automotive transport elaborated by the European Commission propose to consider the following criteria as outcomes: the level of reduction of time costs and prices; the level of improvement of the institutional component of the management of transport infrastructure; the growth of employment; the widening of access to transport services; the increased effectiveness of commercial activities of companies; the reduction of pressure on the environment; and the increased level of safety of automotive transportation. At the final stage of impact evaluation, there is analysis of the short-term outcomes (growth in the number of employed in the region, the growth in inter-regional goods exchanges, the number of visits to medical institutions, the rates of schooling) and long term outcomes (impact on social-economic development and poverty reduction).

4. Specifics of ICT-based infrastructure development and approaches to impact evaluation

Information-communication technologies (ICT) are a relatively new element of infrastructure in the world economy, but their impact on global politics and economics has increased dramatically. The analysis of ICT development in developing countries makes it possible to identify the following urgent issues and specific features of this sector development.

First, the level of development of ICT-based infrastructure in developing countries is much lower than in the developed world. This is reflected in the term "digital divide". Developing countries are known for a relatively low level of access by households and companies to computers and limited access to telecommunications services, including the Internet. International organizations face several problems when collecting comparable statistical information on the dynamics of the development of this sector. To solve this problem UNCTAD together with the International Telecommunication Union – with support from other specialized agencies of the UN, including UNESCO, ECLAC, ESCAP, and other agencies – developed a set of indicators and relevant methods of data collection and analysis.

Box 13.4. Vietnam-Japan Joint Evaluation on the Japanese ODA Program for Transport Infrastructure Development in the Red River Delta Area of the Socialist Republic of Vietnam

This project was implemented in 1994-2004. By October 2005 the gross volume of ODA directed to the transport sector of Vietnam amounted to US$5.6 billion, i.e. 23 percent of total ODA provided to the country. 70 percent of ODA to the transport sector was allocated to development of automotive transport systems. 26 donors participated in transport infrastructure development in Vietnam, including, the World Bank, AfB, Japan, France, Canada, and Germany. The largest volume of monies was provided by Japan. During 1994-2004 Japan provided bilateral aid – 13 loans, 12 grants, technical assistance for 2 projects and financed 8 research projects. The overall volume of Japanese aid to the transport sector of Vietnam amounted to US$ 2.9 billion (35 percent of all Japanese ODA to Vietnam). The impact evaluation of projects studied the relevance of the program to the needs of the Vietnamese economy and projects implemented in other sectors. Special attention was paid to the coordination of efforts with other donors who provided development assistance to the transport sector. The results of transport infrastructure development (automotive, railway and waterborne transport) were evaluated, as well as risks that could arise in the future during exploitation and servicing of new infrastructure facilities. Evaluation of the program's impact on the economy of the Red River Delta demonstrated a certain progress in poverty reduction in the region, although the gap in economic development between the Northern and Southern parts of the country was not eliminated. Therefore, ODA made a positive contribution to development of the northern provinces in Vietnam, and development of the transport sector, and helped foster economic ties between Vietnam and China and attract FDI.
Using Vietnamese specialists as contractors let them increase their skills, which was proven by surveys and research conducted with the participation of Japanese and Vietnamese experts. However, a lack of information did not present an evaluation of Japanese ODA's impact on the environment. It is evident that improvement of the transport system, primarily automotive transport, led to a reduction of environmental pollution and noise levels.

Source: Ministry of Planning and Investment, Ministry of Transport, Government of the Socialist Republic of Vietnam, Ministry of Foreign Affairs, Government of Japan. 2006. Vietnam-Japan Joint Evaluation on the Japanese ODA Program for the Transport Infrastructure Development in the Red River Delta Area of the Socialist Republic of Vietnam. 2006. Final Report.

Their work showed that regardless of the efforts undertaken and the rapid development of ICT in some developing countries, the digital divide between developed and developing countries remains significant. For example, in Sweden and Norway 85 percent of household have access to a home computer[149]. In Cambodia in 2008 this figure amounted to only 3.7 percent of households having computers[150]. Problems with continuous supply of electricity and high prices for telecommunication services and computer equipment also constrains the distribution and the use of ICT. The preferred method for the use of ICT for the purposes of social and economic development is establishing broad-band access to the Internet. However, due to some objective reasons this method of communication did not spread in developing countries. Therefore, priority has been given to mobile communication technologies. According to the World Bank report on ICT development, 4 billion mobile phone users were registered by the end of 2008 with India and China being the world leaders[151].

149 Households with Access to a Home Computer. URL: www.oecd.org/sti/ICTindicators
150 UNCTAD. 2010. "Information Economy Report 2010". UNCTAD. Geneva. p.21.
151 World Bank. 2009. "Information and Communications for Development. Extending Reach and Increasing Impact." Washington, D.C.: World Bank, p. 4.

It is important to emphasize that programs under the heading "Electronic Government" have a huge potential for development of ICT. These programs help to foster interaction between the state, private companies and individuals, and to create new jobs. They help increase the competitiveness of the country in the world economy. These programs are believed to have a positive systemic impact on the national economic development. ICT-based infrastructure as a component of SWAp programs is included for a larger number of programs in education, health, and aid for trade.

Second, the development of electronic trade in developing countries is hampered not only by limited access to infrastructure, but also by issues related to state regulation of this sphere. Addressing this problem is critical for development of the telecommunications sector with the goal of widening the use of electronic the issues online payments systems. Financing for projects aimed at infrastructure development and providing support for PPPs, the issues related to state regulation of the sector have been brought to the forefront of the development agenda.

Third, ICT currently play a decisive role in the development of education and health systems. Implementation of educational programs is largely ineffective without the use of information technologies and the opportunities provided by the Internet. It is interesting that the goals set by the international community in terms of ensuring the access of schools to ICT and the Internet imply the implementation of innovative approaches. For example, the One Laptop Per Child (OLPC) project set as a goal to develop personal computers with special software and electrical power supply capability to be used in regions with limited access to electric power.

ICT helps poverty reduction in several ways – directly and indirectly. UNCTAD experts in their report on the information economy outline economic and non-economic dimensions of ICT impact. The economic dimension implies use of ICT to increase the effectiveness of production activities in companies where the poorest are employed, in payment and in processing sales of goods and services data. Non-economic dimensions reflect the role of ICT in solving social problems and for infrastructure management. This happens when information technologies are not used directly by the poor population but are a major part of the positive impact of ICT on society in the form of the improvement of public management systems.

The impact assessments of ICT-related development projects are carried out in the form of cost-effectiveness analysis and summative evaluation. The first method is used when experts evaluate the use of ICT on the micro-level (company, educational or medical institution). The second method of summative evaluation is used in cases where the program had either a sector focus or a national focus.

Cost-effectiveness analysis requires taking into account the fact that costs can be one-time (costs of purchase of computers and software, training of staff etc.) and on-going (access to Internet, purchase of mobile phone services, staff salaries etc.). The evaluation of ICT benefits is possible when it is based on information about income growth as a result from the use of these technologies, the reduction of time saving costs and the production costs of goods and services delivery. Experts also identify "indirect" benefits – ensuring equal access to information, acquisition of necessary computing skills and so on.

It is important to stress that general approaches to impact evaluation of ICT-related projects are adjusted depending on the sector where these technologies are used. For example, the analysis of effectiveness of ICT use in educational institutions requires evaluation of both the short-term and the long-term impact of these technologies on development of the national educational system as a whole, for each institution, and on student learning. This approach takes into account the indicators that reflect the level of development and funding of the educational system, the level of funding of ICT, as well as indicators that reflect the social-economic situation in the country. The main problems that arise in the process of evaluating the impact of ICT-related projects in education are: the presence of a national program aimed at widening of use of ICT in the economy and its reflection in the concept of development of the national educational system; the level of qualification of teachers and their computing skills, understanding the role of such technologies in the improvement of the educational process; and the presence of the organizational capacity necessary to conduct monitoring and evaluation activities.

Box 13.5. ICT Project at Makerere University in Uganda: Impact Evaluation (2005)

Financing for implementation of this project was provided by the Swedish International Development Cooperation Agency with the support of the Norwegian Agency for Development Cooperation, the Carnegie Foundation and the Netherlands Organization for International Cooperation in Higher Education. The main goals of the project were to strengthen the research capacity of the university, teachers and fellows, by replacing an ineffective computer network with a more productive one and the creation of a network covering research laboratories of the University, the introduction of a University e-mail system, the training of users (students, teachers, administrative staff), and the organization of access to the electronic resources of the University Library.

Impact evaluation showed that two main declared goals were achieved. More than 50 percent of university staff developed new skills in the use of ICT. Special training was provided for the librarians. The number has grown of students and graduates of the Faculty of Information Technologies.
Some outcomes were not achieved, but the plans to achieve them were adjusted after the completion of the core part of the project. For example, contrary to expectations, the implementation of the project in the Makerere University had a limited impact on other higher education institutions in East Africa, but had a positive impact on the work of other universities in Uganda. The government of the country intends to use the experience of the University and engage the Makerere staff in implementation of a comparative undertaking at other universities.

Source: Greenberg, Alan, and Gerrit Versluis. 2005. Sida Supported ICT Project at Makerere University in Uganda. Sida Evaluation 05/17. Department for Research Co-operation. URL: http://www.sida.se/publications

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Thus, international development assistance to the ICT-based infrastructure is important strategically for developing countries. Ensuring access to the Internet and to mobile technologies has become critical for the promotion of economic growth and

the improvement of social policies in these countries. Impact evaluation of projects and programs in this sphere calls for the application of a comprehensive approach that takes into account both the technological component and the development of the sector or the institution where the introduction of information technologies or the improvement of an existing technological base takes place.

SELF-CHECK QUESTIONS

1. Please, name and describe the main problems of infrastructure development in developing countries.
2. Please, describe advantages and disadvantages of the involvement of PPPs in the implementation of projects aimed at building and servicing infrastructure facilities.
3. Please, describe the main approaches to impact evaluation of infrastructure-related development projects.
4. What are the main problems of impact evaluation of transport-related development projects in developing countries?
5. Please, describe the main forms of energy-related international development assistance, and its sector and geographical distribution.
6. Please, describe the EC framework for impact evaluation of energy-related development projects.
7. What is "digital divide"? How does a "digital divide" hampers economic growth?
8. Please, enumerate the main potential directions for international development assistance in the ICT sector aimed at poverty reduction and raising income in developing countries?
9. Which criteria are used to evaluate the impact of ICT-related development projects?

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LECTURE №14

SOCIAL SECTORS**

Lecture outline

1. **Social issues on the international development assistance agenda**
2. **International development assistance flows to social sectors**
3. **Poverty reduction, education, health, water supply, and sanitation**
4. **Social protection**
5. **Monitoring and impact evaluation of development assistance programs in social sectors**

1. Social issues on the international development assistance agenda

Since 1990 there has been an overall shift in focus from infrastructure and production to the social sectors. The development agenda in the social sphere is shaped by collective efforts towards meeting the Millennium Development Goals by 2015. According to the UN MDG Report of 2010 [UN 2010] these collective efforts have made inroads in many areas. Encouraging trends have put many regions on track to achieve at least some of the goals. Progress toward achievement of the MDGs, however, remains mixed.

Progress on poverty reduction is still being made, despite significant setbacks due to the 2007-2009 economic downturn, and the food and energy crises. Some parts of the developing world remain on track to achieve the poverty reduction target by 2015. The overall poverty rate still translates into around 1.4 billion people living under the international poverty line. Major advances have been made in getting children into school in many of the poorest countries, including in Sub-Saharan Africa

Remarkable improvements from key interventions—for malaria and HIV control, and measles immunization, for example—have cut child deaths from 12.5 million in 1990 to 8.8 million in 2008. Between 2003 and 2008, the number of people receiving antiretroviral therapy increased tenfold—from 400,000 to 4 million. Major increases in funding and a stronger commitment to control malaria have accelerated delivery of malaria interventions. Across Africa, more communities are benefiting from bednet protection and more children are being treated for malaria with effective drugs [UN 2010, p.4].

The increased use of improved water sources in rural areas has narrowed the large gap with urban areas. However, the safety of rural water supplies remains a challenge and urgently needs to be addressed.

** **Editor's Note: Readers of this Lecture on Social Sectors are urged to read for themselves two influential reports on the substance and global imperative of the social sectors. The first report is by the United Nations: «The Millennium Development Goals Report 2010» The MGDs followed from the Millennium Declaration of 2000 signed onto by 193 nations of the world, and have improved the lives, as the report states «of hundreds of millions of people around the world.» ODA for the social sector is a tangible way of recognizing that accomplishing the MGDs «represent human needs and basic rights that every individual around the world should be able to enjoy...»In encouraging everyone to read this 2010 report on the Internet, the report itself reminds us that «meeting the goals is everybody's business». The second report is by the World Bank is from its milestone World Development Report annual series. The report frequently cited in the lecture is from 2004 which reminds us that «...broad improvements in human welfare will not occur unless poor people receive wider access to affordable, better quality services in health, education, water, sanitation, and electricity.» The social sectors lecture is about hope for humanity: «The world possesses the resources and the knowledge to ensure that even the poorest countries... can be empowered to achieve the MGDs."**

Mobile telephones continue to expand in the developing world and are increasingly being used for mobile banking, disaster management and other non-voice applications.

Though progress has been made, it is uneven. And without a major push forward, many of the MDG targets in most regions are likely to be missed by 2015. Old and new natural and anthropogenic challenges threaten to further slow progress in some areas, or even to undo successes achieved so far [UN 2010, p.4].

The risk of death or disability and economic loss due to natural disasters is increasing globally. There is less resilience with which to draw upon to respond to natural disasters in poorer countries. Armed conflict remains a major threat to human security and threatens to undermine hard-won MDG gains. Large populations of refugees remain in camps with limited opportunities to improve their lives. In 2009 alone, 42 million people were displaced by conflict or persecution, four-fifths of them in developing countries.

The number of people who are undernourished has continued to grow. The already slow progress in reducing the prevalence of hunger has stalled. About one in four children under the age of five are underweight, mainly due to lack of food and quality food, inadequate water, sanitation and health services, and poor care and feeding practices [UN 2010, p.4].

In 2005, an estimated 1.4 billion people were still living in extreme poverty. Moreover, the effects of the global financial crisis are likely to persist: poverty rates will be slightly higher in 2015, and even beyond to 2020, than they would have been had the world economy grown steadily at its pre-crisis pace.

Gender equality and the empowerment of women are at the heart of the MDGs. They are preconditions for overcoming poverty, hunger and disease. But progress has been sluggish on all fronts—from education to access to political decision-making [UN 2010, p.4].

Achieving the MDGs will require increased attention to those who are most vulnerable. Policies and interventions will be needed to eliminate the persistent or even increasing inequalities between the rich and the poor, between those living in rural or remote areas or in slums versus better-off urban populations, and those disadvantaged by geographic location, sex, age, disability or ethnicity.

In all developing regions, children in rural areas are more likely to be underweight than urban children. In Latin America and the Caribbean and parts of Asia, this disparity increased between 1990 and 2008 [UN 2010, p.5].

The gap between the richest and the poorest households remains enormous. In Southern Asia, 60 per cent of children in the poorest areas are underweight compared to 25 per cent of children in the richest households. Even in countries close to achieving universal primary education, children with disabilities are the majority of those excluded [UN 2010, p.5] .

Maternal health is one of the areas in which the gap between rich and poor is most conspicuous. While almost all births are attended by skilled health personnel in the developed countries, less than half of women receive such care when giving birth in parts of the developing world [UN 2010, p.5].

Lack of education is another major obstacle to accessing tools that could improve people's lives. For instance, poverty and unequal access to schooling perpetuate high adolescent birth rates, jeopardizing the health of girls and diminishing their opportunities for social and economic advancement.

Contraceptive use is four times higher among women with a secondary education than among those with no education. For women in the poorest households and among those with no education, negligible progress was seen over the last decade.

Efforts of the international community at achieving MDGs in the nearest future should be aimed at increasing investments into the social sector to create conditions for the fulfillment of human potential.

2. International development assistance flows to social sectors

The social sphere is the main focus of the MDGs. Of 8 goals, 7 address social issues. The social sphere in recent years has attracted more resources. The share of aid for the social sectors in global ODA portfolio is now the largest one.

The social sphere in the context of international development assistance includes:

- education
- health
- water and sanitation
- government and civil society
- population
- conflict resolution; peace and security

Within the social sector, assistance for the health sector has significantly increased in recent years. Health is now the largest donor funded sector for Sub-Saharan Africa, and the second largest for Low-income Countries. There has also been a reallocation of aid resources away from water and sanitation to government and civil society subsector [World Bank 2008, p.8-10].

Education is one of the main sector priorities for DAC donors. Support for education is carried out through: 1) multilateral mechanisms (commitments and contributions to programs and initiatives of such multilateral institutions as the UN institutions and programs, regional development banks and funds, global funds, and development initiatives); 2) bilateral mechanisms (agreements with partner countries); 3) multi-bilateral mechanisms (where the bilateral assistance is delivered through multilateral institutions. Other important priorities are health, and development of social infrastructure.

After setting its sector priorities, individual donors develop country strategies and adopt strategic plans for assistance to particular countries.

3. Poverty reduction, education, health, water supply, and sanitation

Poverty, inequality of access to health and education services and to clean water and sanitation are not just econometric parameters that measure the level of development of a given country. These represent the real problems that real people face in their everyday lives. Improving living conditions through enhancing *access to basic services* is the minimum of what the international community has been attempting to do for more than 50 years.

Box 14.1. Limited access to education and water as complex issues of social sector

I go to collect water four times a day, in a 20-litre clay jar. It's hard work! …I've never been to school as I have to help my mother with her washing work so we can earn enough money …Our house does not have a bathroom …If I could alter my life, I would really like to go to school and have more clothes (Elma Kassa, a 13-year-old girl from Addis Ababa, Ethiopia).

Source: WDR-2004, p.1.

All too often, services fail poor people—in access, in quantity, in quality. But the fact also is that there are strong examples where services do work. How? By putting poor people at the center of their social sector delivery. But freedom from illness and freedom from illiteracy—two of the most important ways poor people can escape poverty—remain elusive to many. To accelerate progress in human development, economic growth is, of course, necessary. But it is not enough. Scaling up will require both a substantial increase in external resources and more effective use of all resources, internal and external. As resources becomes more productive, the argument for additional resources becomes more persuasive [WDR-2004, p.1].

Increasing poor people's choices and their level of participation in service delivery will help them monitor and improve aid delivery . Raising the voices of poor citizens through the ballot box can increase their influence with policymakers — and reduce the diversion of social services funds to the non-poor for political patronage. By rewarding the effective delivery of services and penalizing the ineffective, policymakers can force providers to serve poor people better. Innovating with service delivery arrangements will not be enough. Societies should learn from their innovations by systematically evaluating and disseminating information about what works and what does not. The challenge is formidable. Making services work for poor people involves changing not only service delivery arrangements but also the nature of public sector institutions. It also involves changing the way much of ODA is transferred [WDR-2004, p.1].

One of the main development issues in the social sector is poverty. Poverty has many dimensions. In addition to low income (living on less than US$1.25 a day), illiteracy, ill health, gender inequality, and environmental degradation are all elements of being poor. This is reflected in the Millennium Development Goals. The multidimensional nature of poverty is also reflected in the World Bank's two-pronged strategy for development—investing in people and improving the investment climate. That five of the eight goals and one of the two prongs of the strategy for development expressly concern health and education signals how central human development is to human welfare [WDR-2004, p.2].

The world as a whole is on track to achieve the first goal—reducing by half the proportion of people living on less than US$1.25 a day—thanks mainly to rapid economic growth in India and China, where many of the world's poor live. But the world is off track in reaching the goals for primary education, gender equality, and child mortality. To reach all of these

goals, economic growth is essential. But it will not be enough. The projected growth in per capita GDP will by itself enable five of the world's six developing regions to reach the goal for reducing income poverty. But that growth will enable only two of the regions to achieve the primary educational enrollment goal and none of them to reach the child mortality goal. If the economic growth projected for Africa doubles, the region will reach the income poverty goal—but still fall short of the health and education goals [WDR-2004, p.2].

Because growth alone will not be enough to reach the goals, the international community has committed itself—in a series of recent meetings in Monterrey, Doha, Rome, Paris, Accra, Busan — to greater resource transfers by developed countries and better policies and institutions in developing countries.

Box 14.2. Infant mortality and health problems in Brazil

With seven other children to care for, Maria's mother, Antonia Souza Lima, explained that she could not afford the time—an hour-and-a-half walk—or the 40-cent bus fare to take her listless baby to the nearest medical post. Maria seemed destined to become one of the 250,000 Brazilian children who die every year before turning 5. But in a new effort to cut the devastating infant mortality rate here, a community health worker recently started to walk weekly to the Lima household, bringing oral rehydration formula for Maria and hygiene advice for her mother, who has a television set but no water filter. Once a month, the 7,240 workers in the Cear health program enter the homes of four million people, the poor majority of a state where most people's incomes are less than US$1 a day. Erismar Rodrigues de Lima, a neighbor of the Limas, listened intently to instructions on filtering drinking water. "I am the first member of my family to ever receive prenatal care," said the 22-year-old woman, who is expecting a baby in June.

Source: WDR-2004, p.19.

The problem of providing basic services to the poor is not always related to the absence of physical infrastructure. Often infrastructure is created but there are problems with getting access to it and with the quality of services which are provided [WDR-2004, p.19].

Box 14.3. Examples of badly-organized systems of basic services delivery in different countries

Adaboya, Ghana: poor people say that their "children must walk four kilometers to attend school because, while there is a school building in the village, it sits in disrepair and cannot be used in the rainy season."

Potrero Sula, El Salvador: villagers complain that "the health post here is useless because there is no doctor or nurse, and it is only open two days a week until noon."

Mutasa (Zimbabwe): women have given birth at rural health centers in the Mutasa district of Zimbabwe complain that they were hit by staff during delivery.

Source: WDR-2004, p.19-32.

According to the 2004 World Development Report, in many of the poorest countries, access is limited to schools, health clinics, clean water, sanitation facilities, rural transport, and other services. There are several reasons for bad service delivery to the poor population.

By way of example, for children in the Aberagerema village in Papua New Guinea, the nearest school is in Teapopo village, an hour away by boat, two hours by canoe. This is not unusual for the poorest countries. Typically, poor people need to travel substantial distances to reach health and education services—and often much longer distances than richer people have to travel in the same country [WDR-2004, p.21].

On top of this, professional staff are getting rarer in some parts of the world. There is mounting evidence that AIDS is reducing the pool of people able to become teachers or health professionals, and international labor markets are making it hard to keep qualified medical staff in poor countries [WDR-2004, p.20].

Coverage of other services is also far from universal. More than a billion people worldwide have no access to an improved water source, and 2.5 billion do not have access to improved sanitation. In Africa only half of the rural population has access to improved water or improved sanitation. In Asia only 30 percent of the rural population has access to improved sanitation. Again, there are large variations across and within countries. In Cambodia 96 percent of the richest fifth of the population has access to an improved drinking water source, but just 21 percent of the poorest fifth. In Morocco in 1992, 97 percent of the richest fifth of the population had access to an improved water source, but just 11 percent of the poorest fifth did. In Peru the corresponding shares are 98 percent and 39 percent [WDR-2004, p.21].

Over many years developing countries and donors have been seeking to solve these problems and widen access to basic services for their own population. Indonesia expanded access to primary education in the mid-1970s by using its oil windfall to build new schools and to hire more teachers. Primary enrollment doubled between 1973 and 1986, reaching 90 percent—though the story on quality is less positive. Despite a limited budget El Salvador expanded access to schooling in poor rural communities after a civil war in the 1980s by using innovative institutional arrangements [WDR- 2004, p.21].

The exact relationship between use of social services and family income varies, but for poor people, lower incomes and higher prices are associated with less use. Poor people spend a lot of their money on services: 75 percent of all health spending in low-income countries is private, 50 percent in middle-income countries. Based on government sources, these broad aggregates are probably underestimates, hiding the heavier burden on poor people. And poor people often need to pay more for the same goods. For example, poor people often pay higher prices to water sellers than the better-off pay to utilities . In Ghana the approximate price paid per liter for water purchased by the bucket was between 5 and 16 times higher than the charge for the public supply, even though women and children

Box 14.4. El Salvador's Community-Managed Schools Program (Educo)

Civil War. El Salvador was wracked by civil war throughout the 1980s. Some 80,000 people died—in a total population of roughly 5 million—and many more were wounded and disabled. Income per capita fell almost 40 percent between 1978 and 1983. The war had severely damaged the education system. Communication between the central ministry and schools broke down, supervision collapsed, and many teachers abandoned their posts, viewed by some as government "agents" and by others as agents of the social opposition. By 1988 more than a third of the country's primary schools had closed. And by the end of the war some 1 million children were not in school.

Establishing Educo—Education with the Participation of Communities. The Ministry of Education quickly identified expanding access to basic education and raising its quality as central goals— both to rebuild national unity and to promote long-term economic development. Minister of Education Cecilia Gallardo de Cano, a reform proponent from the "modernizing" wing of the Republican Alliance Party, was intent on lessening the distrust between former combatants. But skepticism was high. The Ministry of Education was not trusted by citizens in many parts of the country and not trusted by organized groups such as the National Association of Teachers.

Expansion of the traditional education system was viewed suspiciously as a covert means of reasserting national control and building political support in opposition dominated areas. During the war many communities had recruited local teachers and established community schools, bearing the cost themselves and paying teachers when they could. The government seized on this model of community-based schooling as the basis for a formal program that would be financially and administratively supported by the Ministry of Education: Educaciyn con Participaciyn de la Comunidad, or Educo, with the goal of encouraging the establishment of preschools and primary schools, or classrooms in existing schools.

Begun in 1991, Educo targeted 78 of the country's poorest rural municipalities (of 221 urban and rural municipalities). By 1993 the program was expanding to all rural areas, including many areas formerly under opposition control. But not all of the "*popular schools*" established during the war were incorporated into Educo. Some observers claimed there was selective inclusion based on political favoritism; others saw not incorporating popular schools into a government program as a way of sustaining spontaneous community-based education.

Each Educo school (or section within a traditional school) is operated by a Community Education Association (ACE)—an elected committee made up primarily of students' parents—that enters into a one-year renewable agreement with the ministry. The agreement outlines rights, responsibilities, and financial transfers. The Ministry of Education oversees basic policy and technical design. Using the money directly transferred to them, ACEs select, hire, monitor, and retain or dismiss teachers. Teachers at Educo schools are hired on one-year renewable contracts. Parents are taught about school management and how to assist their children at home.

Three-quarters of new enrollments. Educo succeeded in many respects. From a pilot phase of six ACEs in three departments, it scaled up nationally to all of the country's departments by 1993. Rural primary enrollments increased from 476,000 in 1992 to 555,000 in 1995—with over 75 percent of the new students enrolled in Educo schools.

Even as enrollments increased rapidly, there is little evidence that learning quality suffered. A survey of 30 Educo primary schools and 101 traditional schools in 1996 found no significant differences in average math and language test scores among third graders in the two types of schools. A follow-up study in 1998 found that grade promotion and repetition were similar across the two types of schools as well.

Source: El Salvador Ministry of Education // WDR-2004, p.131-132

often had to walk a long distance to purchase the water [WDR-2004, p.21]. Apart from a limited access, water quality causes chronic diseases in many of the poorest countries (See Box 14.5).

Box 14.5. Fighting arsenic by listening to local communities in Bangladesh

The arsenic contamination of shallow aquifers may be undoing the success of rural drinking water provision in Bangladesh. While the number of individuals showing symptoms of arsenic poisoning is still low—despite the high concentration of arsenic in the water—between 25 and 30 million people may be at risk in the future.

The first response to the crisis by government and many donors was denial. This was followed by an effort to test all water sources and hand pumps. There were various technological and logistical problems—which is not surprising in view of the fact that arsenic contamination on this scale has not been faced anywhere in the world. These problems were further complicated by a lack of coordination and a blurring of roles among government, donors, and nongovernmental organizations (NGOs).

The efforts so far have revealed that surface water does not contain arsenic and that not all aquifers are contaminated. Government, donors, and NGOs are advocating several options: shifting to alternative water sources, including some surface sources; sharing of uncontaminated tubewells in villages; sinking deep tubewells in public areas; and promoting household filtering technologies. The latter, if successful, would preserve the use of shallow tubewells—decentralized, household means of water access—that have defined the "water miracle" of Bangladesh.

In all of this, little effort was made to understand the preferences of rural households. A WSP-BRAC (Water and Sanitation Program–Bangladesh Rural Advancement Committee) team undertook a comprehensive survey of household preferences for different approaches to arsenic mitigation in selected areas of rural Bangladesh.

The results reveal that communities place a high premium on convenience. Unless the alternatives are as convenient as the current hand pumps, the shift to dugwells, well-sharing, and other mechanism may not work. Indeed they have yet to be successful as solutions. Communities strongly indicated a preference and willingness to pay for centralized, community-based filtering systems, such as local piped-water systems with a central filtering point for chemical and biological contaminants. The piped water network systems introduced in the Bogra area by the Rural Development Academy suggest the potential of such systems in Bangladesh. This has been confirmed by preliminary data, which show the cost effectiveness of piped water in settlements that have 300 or more households. If implemented broadly, this approach would dramatically change the nature of water institutions in rural Bangladesh—a change that communities are willing to undertake.

Source: Ahmad J., Goldar B.N., Jakariya M., Mirsa S. Fighting Arsenic: Listening to Rural Communities Willingness to Pay for Arsenic-Free, Safe Drinking Water in Bangladesh // Water and Sanitation Programme Field Note. December 2002. URL: http://www.bvsde.paho.org/bvsacd/cd27/fighting.pdf

Other social sector problems include corruption in various forms and poor quality service. Services also fail poor people when their technical quality is low—that is, when outcomes are inefficient, ineffective, or harmful. For example, health workers with low skills give the wrong medical advice or procedure, or schools use ineffective teaching methods.

This not only hampers fulfillment of human potential but undermines the very existence of the poorest population on the planet.

4. Social protection

In May 2009, at the High-Level meeting of the OECD there was a statement adopted that outlined the need to orient growth toward meeting the needs of the poor and the priority of poverty reduction. The OECD-DAC members directed special attention to social protection and expanding employment opportunities for socially vulnerable groups.

Social protection refers to policies and actions which enhance the capacity of poor and vulnerable groups to escape from poverty, and better manage risks and shocks (social, economic, and climate) [OECD 2009, p.10].

Policies that recognize and improve conditions in the informal economy, where most poor women and men earn their livelihoods, are critical to poverty reduction. Increasing the employability of poor people, especially for women and youth, unlocks their potential to contribute to growth [OECD 2009, p.9].

Social protection directly reduces poverty and helps make growth more pro-poor. It helps build human capital, manage risks, promote investment and entrepreneurship, and improve participation in labor markets. Social protection programs can be affordable, including for the poorest countries, and represent good value for the money invested [OECD 2009, p.9].

There are different and often mutually reinforcing dimensions to social protection, e.g. rights promotion, human development, economic growth, democracy and security. The United Nations Research Institute for Social Development (UNRISD) identifies universal social protection and equity as the central goal of social policy [OECD 2009, p.33].

National governments and donors increasingly recognize the value of social protection initiatives in ensuring progress towards the Millennium Development Goals. Social protection not only tackles income poverty but also provides effective support for broader developmental objectives, including better nutrition, health and education outcomes. In countries where the main recipients of interventions are women, social protection measures can promote empowerment and more balanced gender relations. Social protection programs are increasingly targeted to those affected by HIV and AIDS, including orphans and vulnerable children [OECD 2009, p.34].

Social protection interventions offer promising avenues for operationalizing the Paris Declaration on Aid Effectiveness in ways that promotes pro-poor growth and country-led national and regional development strategies.

Donors can play a critical role in supporting national social protection initiatives, particularly through capacity building and predictable long term funding aimed at leveraging sustainable government finance.

5. Monitoring and impact evaluation of development assistance programs in social sectors

Monitoring and impact evaluation of development programs in social sectors are conducted by different development actors on a regular basis. Depending on the stakeholder (partner countries, individual donors, multilateral institutions, international non-governmental organizations, and global funds), goals and priorities, objectives, and procedures of monitoring and impact evaluation vary substantially.

Each of the aforementioned stakeholders provides development assistance according to their own certain goals and priorities, financing modalities, and needs of the partner countries, which in its turn act not just as aid recipients but as active partners who are responsible for future positive outcomes of development programs. All this makes it difficult to describe the experiences of each of the stakeholders and to classify the existing practices, especially, in monitoring and evaluation.

Below we will give examples of impact evaluation conducted by a partner country (Mexico), individual donor country (the United Kingdom) and a multilateral institution (Asian Development Bank).

International organizations often act as partners in the implementation of national development programs. Some national programs of partner countries aimed at providing basic services to vulnerable populations incorporate monitoring and impact evaluation as important parts of their programs. A good example of such programs is a program for conditional cash transfers to reduce poverty in Mexico, "Progresa" (Box 14.6). Individual donors use instruments for monitoring and impact evaluation of their activities in partner countries to assess the effectiveness of what has occurred so far and adjust their interventions based on monitoring. Below is an example of the Nepal Eastern Region Water Supply Project implemented by the UK DFID (Box 14.7).

From the point of view of monitoring and impact evaluation of development programs in the social sector, the experience of Asian Development Bank is especially interesting. ADB conducts regular monitoring and impact evaluation of its activities in developing countries. The Bank's website contains a large collection of evaluation reports on: 1) Country assistance program evaluations; 2) Sector assistance program evaluations; 3) Project performance evaluation reports; 4) Validation of project completion reports; 5) Special evaluation studies. Box 14.8 contains an example of ADB Country Assistance Programme Evaluation for Bangladesh.

Box 14.6. Conditional cash transfers to reduce poverty in Mexico

PROGRESA, the Education, Health, and Nutrition Program of Mexico, transferred money directly to families on the condition that family members went for health checkups, mothers went for hygiene and nutrition information sessions, and children attended school. By documenting success through rigorous evaluation, the program has improved, scaled up, and taught others (it was implemented in Columbia, Honduras, Jamaica, and Nicaragua).

Progresa was unusual in integrating evaluation from the beginning, enabling it to assess impacts fairly precisely. To ensure political credibility, the evaluation was contracted out to a foreign-based research group, the International Food Policy Research Institute.

Phasing in communities in a random fashion—required for budgetary purposes— allowed the construction of 186 control and 320 treatment groups. Having the control groups enabled evaluators to "wash out" confounding factors, including time trends and shocks (economic and climatic). Eventually all control communities were incorporated in the program. Both quantitative and qualitative evaluations were conducted, the latter using semi-structured interviews, focus groups, and workshops.

The evaluation design captures the many determinants of outcomes. But it has limitations. Policymakers would benefit from knowing how the program could be manipulated to improve impacts. For example, "What is the impact of conditioning the transfers rather than giving pure unconditioned transfers?" In addition, households in the control group might have been affected by the intervention or by knowing that they might receive it in the future, an effect that would muddy the comparisons. Evaluations can address these issues, but the complexity (and expense) increases substantially. Alternative approaches that rely on modeling—imposing additional assumptions on the analysis—might be necessary. Such analyses are currently underway.

Source: WDR-2004, p.30-31; URL: http://www.ifpri.org/dataset/mexico-evaluation-progresa

Box 14.7. Nepal Eastern Region Water Supply Project

The objective of the Eastern Region Water Supply Project (ERWSP) was to install water supplies in 16 communities, covering about 63,000 people, and improve the water supply to one hill town (Dhankuta). It included a community Health and Sanitation Program and community-oriented operation and maintenance. The schemes were to consist mainly of public tapstands and, in the hills, gravity-fed supplies. In the plains areas, however, schemes required more complex pumping and storage works. Substantial benefits were expected from the reduction in time and labor spent collecting water and from an improvement in health from safer water supplies.

UK engineering consultants were to have overall responsibility for the management of capital funds, with the Nepalese Department of Water Supplies and Sewerage (DWSS) as the implementing agency. Implementation was expected to last three years from 1984 to 1987. ODA intended to meet 100 percent of the costs, estimated at US$3.9 million (at 1982 prices). Project conditions included provision by DWSS of adequate budgetary support for maintenance, and progress towards reform of the national water tariff policy.

The evaluation was jointly undertaken by ODA and DWSS. The full report provides details of team members, terms of reference, itinerary, and people consulted. The field work for the study was carried out in Eastern Nepal in November 1992. The project was evaluated as partially successful. Eight schemes were completed to a high standard of construction, often in difficult circumstances. The community health and training components were effective in the short to medium term and the project has brought significant benefits of better quality water, better health conditions and practices, and a better quality of life, especially for numbers of women, arising in part from easier access to domestic water and the associated time saving.

The project was less successful in that there were significant time and cost overruns and fewer schemes were completed than planned. Three of the largest schemes were left unfinished. They were subsequently finished under a separate project.

Source: DFID Evaluation Studies Data Base. URL: http://www.dfid.gov.uk/About-DFID/Finance-and-performance/Evaluation/

Box 14.8. Country Assistance Programme Evaluation for Bangladesh

The Asian Development Bank (ADB) has been supporting the development of Bangladesh since 1973, following the country's independence in 1971. From 1973 through the end of 2008, ADB approved 183 loans totaling US$10 billion for 163 projects and programs in Bangladesh. ADB's support has covered many sectors since 1973, but has focused mostly on energy, transport, agriculture and natural resources (ANR), and education.

Bangladesh is one of the world's largest recipients of official development assistance, with the Government's development partners financing half of annual development spending. ADB has been the second largest source of financing, and one of the lead financiers in energy, water supply and sanitation, agriculture and natural resources, education, and transport.

Strategic positioning. ADB's 2005 country strategy largely continued the sector focus of the 1999 strategy. That was an appropriate choice, given that the sectors were among the Government's top priorities, and that the 2003 CAPE had not found any major problems in ADB's program. The 2005 strategy, like the 1999 strategy, pledged to cut the number of subsectors ADB would support, provided that doing so would not compromise ADB's previous contributions in those subsectors. It introduced issues related to governance, private sector, project preparation, implementation, and results. The 2005 strategy was consistent with ADB's long-term strategic framework (2001-2015).

The 2005 country strategy was developed in an innovative «joint approach» with three other development partners, in an effort to raise efficiency and develop synergies across the programs. A separate evaluation of that joint approach (initiated by evaluation units of the four partners) found that, although the joint approach had not delivered on all of its potential, it clarified the division of labor among the partners, and strengthened leadership in sectors. The sector-wide approach supporting primary education is another example of ADB's success in working with the Government and other development partners to contribute to the country's development. In another strategic partnership, in 2007 ADB led the Government and three other development partners in forming a partnership to support water supply and sanitation.

ADB's performance. ADB's program has been generally consistent with the country strategies and the Government's priorities. The top four sectors in ADB's program have been energy, transport, education, and agriculture and natural resources (ANR), sectors which were identified in ADB's country strategies, and which are also the Government's top priorities. Programming under the 1999 strategy met its aim to cut the number of subsectors. Programming under the 2005 strategy, however, has continued supporting some subsectors (e.g., crop diversification, livestock development, rural livelihood development) that the strategy aimed to cut, apparently because ADB felt other development partners were not prepared to step in to replace ADB's support. Although the 2005 strategy pledged to focus on fewer sectors, ADB's financing of projects and programs has broadened slightly. ADB added a sector it had not supported in recent programming (law, economic management, and public policy), while continuing to support all previous sectors. A major reason for this addition was to support governance reform at the request of the Government. ADB's sector focus is at least as good as its other partners in the joint approach.

ADB's program responded well to the country's needs and the Government's priorities, especially for disaster risk management and emergency support. ADB administered its portfolio in a difficult environment. All projects in Bangladesh proceed slower than expected, including those financed by the Government and by ADB. ADB's disbursements, however, are lower than those of other major development partners, and are regularly below the ADB average. ADB's portfolio in Bangladesh has US$1.88 billion un-contracted and US$2.13 billion un-disbursed balances.

The CAPE considered seven key sectors or areas of ADB's program: (i) energy; (ii) education; (iii) transport; (iv) disaster risk management; (v) agriculture and natural resources; (vi) urban development, water supply and sanitation (UD-WSS); and vii) law, economic management, and public policy. These areas cover 90 percent or more of ADB's financing for projects and programs in Bangladesh, and 80 percent or more of advisory technical assistance (ADTA).

Education. ADB's third largest program, that in education, has been rated successful. A separate education sector assistance program evaluation prepared for this CAPE found that ADB effectively led the sector-wide approach in support of primary education, another example of an effective partnership in ADB's program. That ongoing program has so far strengthened government ownership and leadership, improved coordination among the development partners, and is opening access to education. There is, however, room for improvement. For example, the partly successful rating of the country's achievement of development results indicates that, while major project-level outcomes like higher enrollment and access have largely been achieved, they have not been sufficient to raise adult literacy.

Urban development, water supply and sanitation. Urban development, water supply and sanitation have been a growing part of ADB's program in Bangladesh. A separate sector assistance program evaluation prepared for this CAPE found that ADB's program has had a substantial impact in opening access to safe water and sanitation, and strengthening urban governance. The sustainability of ADB's program has suffered, though, because tariffs have not risen and needed reforms have not taken place. Overall, ADB's program in urban development, water supply and sanitation is rated only partly successful.

Source: Country Assistance Programme Evaluation for Bangladesh // Asian Development Bank, 2009. URL: http://www.adb.org/Evaluation/resources-list.asp?type=5&p=evalcape

As can be seen from the last example, the ADB analytic group used two types of assessments: top-down and bottom-up assessments. Top-down assessment makes it possible to evaluate the relevance of the ADB's strategic positioning relevant to the country's needs, the Government's priorities, and ADB's own strategies. The overall top-down assessment is successful. The overall bottom-up performance (covering seven parts) is rated partly successful. ADB's programs for energy and education are rated successful, but those two sectors account for less than half of ADB's financing. The other five parts have been rated partly successful due to shortfalls (actual as well as anticipated) in achieving intended objectives, implementation delays, concerns regarding efficiency, and issues related to the sustainability of outputs and outcomes [ADB 2009].

The results of independent evaluations provide the basis for improvement of programs and the mechanisms of their implementation. However, to assess the impact of a given program, probe studies are conducted along with modeling and experiments. For example, the probe study of the education system in India made it possible to identify various shortcomings of the national system of primary education. The results of such studies are usually widely disseminated and discussed. Such a mechanism for dissemination of information makes it possible to inform public opinion, as well as the donor community to a given issue and justify the need for additional reform of a given social sector [WDR-2004, p.26].

SELF-CHECK QUESTIONS

1. What are the specific features of social sectors?
2. How is the development agenda of the development agenda set for the social sectors?
3. Please, name the key stakeholders in the social sectors?
4. What is the composition of ODA to the social sectors?
5. What are the key social sectors?
6. What is the key issues in development assistance to the social sectors?
7. How is development assistance to social sectors provided?
8. What are the main challenges for providing assistance to the social sectors?
9. What is social protection? What are the main dimensions of providing social protection to the populations of developing countries?
10. What are the main reasons behind bad service delivery to the poor population?

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LECTURE №15**

ENVIRONMENT

Lecture outline

1. **Evolution of the global environmental agenda**
2. **International development assistance flows to environment sector**
3. **Green growth and green economy**
4. **Climate change and international development cooperation**
5. **Monitoring and impact evaluation of development assistance programs in the environment sector**

The Declaration of the UN Conference on Human Environment states: "In the long and tortuous evolution of the human race on this planet a stage has been reached when, through the rapid acceleration of science and technology, man has acquired the power to transform his environment in countless ways and on an unprecedented scale…Man is both creature and moulder of his environment, which gives him physical sustenance and affords him the opportunity for intellectual, moral, social and spiritual growth. In our time, man's capability to transform his surroundings, if used wisely, can bring to all peoples the benefits of development and the opportunity to enhance the quality of life. Wrongly or heedlessly applied, the same power can do incalculable harm to human beings and the human environment" [Declaration, 1972].

Acknowledging responsibility for doing harm to the environment, and adopting relevant collective measures to minimize these negative consequences of damaging the sustainability of the Planet have characterized international efforts since the last decades of the 20th century.

1. Evolution of the global environmental agenda

Global Public Goods (GPGs) cut across many aspects of our lives. Many GPGs have historically existed outside of human interference, such as the oceans and seas, the atmosphere, and ozone layer. The traditional definition of public goods is two-fold. First, public good produces benefits which are impossible to prevent everyone from enjoying. Second, the consumption of the good by one person does not detract from another's consumption [Gardiner and Le Goulven 2002, p.17]. The main detriment to environmental GPGs is excessive use and abuse of non-renewable resources, which leads to the emergence of respective global public bads (GPBs) – ocean pollution, global warming, degradation of ecosystems and biodiversity [Afontsev 2002].

** **Editor's Note: The author of Lecture 15 was asked to stay close to the text of Our Common Future from 1987 in order that the readers can understand more fully the reasoning behind what became a transformative document in the global history of thinking about the environment. In Lecture 1 particularly it was clear the importance of formulating an integrated general theory of development. Along with the Millennium Declaration of 2000 and the 1992 Earth Summit in Rio, Our Common Future was a key building block of the general theory of development which underpins modern official development assistance. The author in the closing pages of the lecture was also asked to stay close to the texts of the various declarations intended to lessen and mitigate the negative human induced environmental trends which are especially threatening the future of the Planet and disproportionately affecting the developing world. Many of these Declarations have thoughtful analyses of the problems causing environmental degradation but their solutions are not currently binding on the global community.**

The consumption of GPGs has been unequal across the globe. This has increased the vulnerability of less developed countries. Today, strengthening the resilience of both developed and developing countries to climate change and degradation of biodiversity has formed the basis of international collective efforts and policy initiatives. But there is less resilience in less developed countries and fragile states.

The first United Nations Conference on the Human Environment took place in Stockholm in 1972 and resulted in the adoption of the Declaration, quoted at the start of this lecture. However, a genuine integration of development and environment issues occurred only in 1987 when the World Commission on Environment and Development published its ground-breaking report "Our Common Future" [Our Common Future, 1987]. The report examined the interconnectedness of issues and introduced new ideas on how to address them together under the framework of the sustainable development concept.

The report draws attention to the fact that the future of all nations is threatened by global challenges: "We all depend on one biosphere for sustaining our lives. Yet each community, each country, strives for survival and prosperity with little regard for its impact on others. Some consume the Earth's resources at a rate that would leave little for future generations. Others, many more in number, consume far too little and live with the prospect of hunger, squalor, disease, and early death. Yet progress has been made. Throughout much of the world, children born today can expect to live longer and be better educated than their parents. In many parts, the new-born can also expect to attain a higher standard of living in a wider sense. Such progress provides hope as we contemplate the improvements still needed, and also as we face our failures to make this Earth a safer and sounder home for us and for those who are to come" [Our Common Future, 1987, Ch.I:A Threatened Future, I-Introduction].

The contributors to the report emphasize that failures arise both from poverty and from the short-sighted way in which prosperity has often been pursued: "Many parts of the world are caught in a vicious downwards spiral: Poor people are forced to overuse environmental resources to survive from day to day, and their impoverishment of their environment further impoverishes them, making their survival ever more difficult and uncertain. The prosperity attained in some parts of the world is often precarious, as it has been secured through farming, forestry, and industrial practices that bring profit and progress only over the short term" [Our Common Future, 1987, Ch.I:A Threatened Future, I-Introduction].

Societies have faced such pressures in the past and, as many desolate ruins remind us, sometimes succumbed to them. But generally these pressures were local. Today the scale of interventions in nature is increasing and the physical effects of our decisions spill across national frontiers [Our Common Future, 1987, Ch.I:A Threatened Future, I-Introduction].

The "greenhouse effect", one such threat to life support systems, springs directly from increased resource use. The burning of fossil fuels and the cutting and burning of forests release carbon dioxide (CO2). The accumulation in the atmosphere of CO2 and certain other greenhouse gases traps solar radiation near the Earth's surface, causing global warming.

Another threat arises from the depletion of the atmospheric ozone layer by CFC gases released during the production of foam and the use of refrigerants and aerosols. A substantial loss of such ozone could have catastrophic long-term effects on human and

ecosystem health and on life forms at the base of the marine food chain. A variety of air pollutants called acid rain are killing trees and lakes and damaging buildings and cultural treasures, sometimes thousands of miles from points of emission.

In many cases the practices used at present to dispose of toxic wastes such as those from the chemical industries, involve unacceptable risks. Radioactive wastes from the nuclear industry remain hazardous for thousands of years.

Desertification – the process whereby productive arid and semi-arid land is rendered economically unproductive – and large-scale deforestation are other examples of major threats to the integrity of regional ecosystems [Our Common Future, 1987, Ch.I:A Threatened Future, I-3].

All this threats are global. Therefore, the contributors to the "Our Common Future" report hold both developed and developing countries responsible for environmental protection, while emphasizing the greater vulnerability of the latter to such threats.

Ecology and economy are becoming ever more interwoven into a seamless net of causes and effects locally, regionally, nationally, and globally.

First, environmental stresses are linked one to another. For example, deforestation, by increasing run off, accelerates soil erosion and siltation of rivers and lakes. Air pollution and acidification play their part in killing forests and lakes. Such links mean that several different problems must be tackled simultaneously. And success in one area, such as forest protection, can improve chances of success in another area, such as soil conservation.

Second, environmental stresses and patterns of economic development are linked one to another. Thus agricultural policies may lie at the root of land, water, and forest degradation. Energy policies are associated with the global greenhouse effect, with acidification, and with deforestation for fuel wood in many developing nations. These stresses all threaten economic development. Thus economics and ecology must be completely integrated in decision-making and lawmaking processes not just to protect the environment, but also to protect and promote development. Economy is not just about the production of wealth. Ecology is not just about the protection of nature. They are both equally relevant for improving the lot of humankind.

Third, environmental and economic problems are linked to many social and political factors. For example, the rapid population growth that has resulted in such a profound impact on the environment and on development in many regions is driven partly by such factors as the status of women in society and other cultural values. Also, environmental stresses and uneven development can increase social tensions. It may be argued that the distribution of power and influence within society lies at the heart of most environment and development challenges. Hence new approaches must involve programs of social development, particularly to improve the position of women in society, to protect vulnerable groups, and to promote local participation in decision-making. The political steps of the last 40 years vividly demonstrate the commitment of some parts of the international community to the declared priorities in setting the global environmental agenda . Others of the international community are uncommitted. For example, the United States and China together account for half of global greenhouse gas emissions.

Finally, the systemic features operate not merely within but also between nations. National boundaries have become so porous that traditional distinctions between matters of local, national, and international significance have become blurred. Ecosystems do not respect national boundaries. Water pollution moves through shared rivers, lakes, and seas. The atmosphere carries air pollution over vast distances. Major accidents – particularly those at nuclear reactors or at plants or warehouses containing toxic materials ¬ can have widespread regional effects [Our Common Future, 1987, Ch.I: A Threatened Future, II].

The Brundtland Commision emphasized an approach to environment based on a new concept of "sustainable development". Essential elements of this new concept include the following:

"Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs." It contains two fundamental concepts relevant to official development assistance:

- the concept of 'needs', in particular the essential needs of the world's poor, to which overriding priority should be given; and
- the ideas on the limitations of the environment's ability to meet present and future needs are based on the current operating rules (and lack thereof) of the globalized economy, the essential lack of restrictions on national sovereignty as nation-state activities cross international boundaries, and the limited reach and effectiveness of international environmental law.

In the broadest sense, sustainable development is a process of change (including institutional changes) in which resources, investments, and technologies must be used harmoniously and oriented in the future toward current and future capacity to meet the human needs and expectations of subsequent generations [Our Common Future. Ch.2: Towards Sustainable Development].

The "Our Common Future" report provided the intellectual underpinnings which facilitated the path to the adoption of the Rio Declaration and the United Nations Framework Convention on Climate Change (UNFCCC)[152] at the 1992 Earth Summit of the UN Conference on Environment and Development (UNCED); the Agenda 21 action plan, and the establishment of the UN Commission on Sustainable Development.

In 1997 the Kyoto Protocol was adopted that set targets for the "stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system". The first period of emission reduction commitments expire at the end of 2012. Neither the United States, nor China signed the Kyoto Protocol, and they combine for roughly half of all greenhouse gas emissions.

In 1998 World Meteorological Organization (WMO)[153] and the UNEP[154] established the Intergovernmental Panel on Climate Change (IPCC)[155] with the purpose to provide comprehensive scientific assessments of information worldwide about the risk of climate change caused by human activity, its potential environmental and socio-economic consequences, and the identification of options for adapting to these consequences or mitigating the effects.

152 United Nations Framework Convention on Climate Change. URL: http://unfccc.int/essential_background/items/2877.php (accessed: 15.02.2011).

153 World Meteorological Organization. URL: http://www.wmo.int

154 United Nations Environment Program (UNEP). URL: http://www.un.org/ru/ga/unep/ (accessed: 15.02.2011).

155 International Panel on Climate Change. URL: http://www.ipcc.ch/ (accessed: 15.02.2011).

In 2009 at the UN Framework Convention on Climate Change in Copenhagen[156], heads of states and governments, ministers, and other heads of delegation, that took part in the Conference, adopted the Copenhagen Agreement[157]. However, it was more of a declaration of intent, and not a binding international agreement.

In 2010, the UN Climate Change Conference in Cancun, Mexico ended with the adoption of a balanced package of decisions that was intended to set all governments more firmly on the path towards a low-emissions future and support enhanced action on climate change in the developing world. The package, dubbed the "Cancun Agreements" represented a set of initiatives and institutions to protect the poor and the vulnerable from climate change and to deploy the money and technology that developing countries need to plan and build their own sustainable futures [UNEP 2011]. But it lacks the necessary force of international law, and will not positively impact the future.

2. International development assistance flows to environment sector

In the run-up to the United Nations Climate Change Conference in Copenhagen in December 2009, there was much discussion of the financing requirements to help developing countries meet the challenges posed by climate change. It examined the existing volume of official aid for the environment (and for climate change) and the architecture associated with its delivery. In 2009 the World Bank Group published a special report: "The Architecture of Aid for the Environment: A ten-year statistical perspective" that addressed this question [Castro and Hammond 2009]. But the problem is too significant and too urgent, and major global powers too uncommitted to think this will have an impact.

Any expansion of aid to the environment after Copenhagen needs to draw on the lessons for aid effectiveness of the rapid expansion of aid to the health sector earlier this decade. These include the need to avoid a further proliferation of channels and institutions delivering aid. As this report shows, there is already a plethora of donors, agencies and channels. The fullest possible use should be made of these channels and, if possible, they should be rationalized to reduce the administrative burden on developing countries and on donors [Castro and Hammond 2009, p.i].

According to the World Bank estimates, nearly US$100 billion of aid (at constant 2007 prices) has been committed to the environment over the past decade. This aid was comprised three components; namely: (i) core environment aid—US$56 billion; (ii) aid to water supply and sanitation—US$33.2 billion; and (iii) other aid with a principal environment focus—US$8.2 billion [Castro and Hammond 2009, p.i].

Taking all of the above components together, the share for the environment in total sector allocable aid averaged 15 percent over the period. If projects with environment sustainability as a significant objective are added (US$50 billion), the average share would go up to over 20 percent [Castro and Hammond 2009, p.i].

Looking at core environment aid, the following breakdown has been documented. Most core environment aid goes to general environment protection (35 percent), followed by water resources management (26 percent), agriculture, forestry and fishing (18 percent), urban development (13 percent) and just 8 percent for renewable energy. The main growth sectors have been renewable energy and water resources management, possibly reflecting

156 UN Framework Convention on Climate Change. Copenhagen, 2009. URL: http://www.denmark.dk/en/menu/Climate-Energy/COP15-Copenhagen-2009/cop15.htm

157 Copenhagen Accord. URL: http://unfccc.int/resource/docs/2009/cop15/eng/l07.pdf

an increasing focus on climate change adaptation and mitigation. Agriculture, forestry and fishing were static, while urban development declined over the decade. Far East Asia received 25 percent, Sub-Saharan Africa 22 percent, and South and Central Asia 16 percent in the last 10 years [Castro and Hammond 2009, p.i].

The multilateral share was 31 percent with a further 5 percent channeled through multilateral agencies. Multilaterals are above average in fisheries and urban development with a 40 percent share, and took a near two-thirds share of renewable energy in 2006 and 2007.

Two thirds of core environment aid is provided by seven donors—Japan (16 percent), IDA (14 percent), European Commission (9 percent), Germany (9 percent), United States (9 percent), France (6 percent) and the Netherlands (6 percent). Donors giving the most importance to core environment aid are the Asian Development Fund (17 percent, compared to an average of 9 percent for all donors), Finland (16 percent), Denmark (16 percent), Japan (16 percent), IDA (12 percent), Sweden (12 percent) and Inter-American Development Bank (12 percent) [Castro and Hammond 2009, p.i].

Climate change aid from DAC bilateral donors (plus the European Commission) amounted to around US$ 32 billion over the past decade. The top five providers of aid to combat climate change over the last years were: Japan (46 percent), Germany (24 percent), the European Commission (9 percent), France (9 percent), and Denmark (5 percent). Because the focus is on mitigation, main recipients were middle income or IDA-blend countries: India (15 percent), China (11 percent), Turkey (9 percent), Indonesia (9 percent), Vietnam (4 percent), and Egypt (4 percent) [Castro and Hammond, 2009, p.i].

There has been considerable donor proliferation supporting the environment at the country level. In 2005-07, 38 partner countries had 15 or more donors providing aid to the environment. The average number of donors per partner went up from 6.3 to 8.4 over the decade. The 25 donors reporting since 1995 have established an additional 410 environment donor/recipient partnerships (calculated by adding up the number of donors working in each country) in the period [Castro and Hammond 2009, p.i-ii].

Available data show that the DAC bilateral donors (and the EC) are mainstreaming the environment across sectors. New areas include research, training, trade and business services and post-conflict work. There are no similar data available to make the same analysis for multilateral donors.

In practice, the environment aid architecture has become even more complex than suggested by 31 donors operating 1,571 environment partnerships. 31 donors provide aid from 97 agencies, an average of 3 each. 16 donors report 905 channels. There are literally thousands of channels being used to deliver environment aid. There are also many more donors and agencies, but this report covers only those reporting to the OECD-DAC. Therefore, it excludes some 30 or more non-DAC bilateral donors and dozens of small multilateral agencies operating environmental aid programs [Castro and Hammond 2009, p.ii].

3. Green growth and green economy

While seeking to ensure environmental protection and mitigate the consequences of climate change, the international community acknowledged the importance of basing economic development on low-carbon industrial production that reduces carbon dioxide

emissions and prevents global negative consequences for increasing the rate of the climate change. At the end of the first decade of the 21st century the international community has begun to explore the new concepts of "green growth" and "green economy", but there has been little effective action .

"Green Growth". On 25 June 2009, at the Council Meeting at the Ministerial level the OECD-DAC adopted the Declaration on Green Growth [OECD 2009a]. It stated that economic recovery and environmentally and socially sustainable economic growth are key challenges and that "the crisis should not be used as an excuse to postpone crucial decisions for the future of the planet". On the contrary, "a number of well-targeted policy instruments can be used to encourage green investment in order to simultaneously contribute to economic recovery in the short-term, and help to build the environmentally friendly infrastructure required for a green economy in the long-term" [OECD 2009b, p.1].

In order for countries to advance the move towards sustainable low-carbon economies, international cooperation will be crucial in areas such as the development and diffusion of clean technologies, for example carbon capture and storage, renewable energy technologies, the application of green ICT for raising energy efficiency, and the development of an international market for environmental goods and services. Cooperation will also be essential among OECD countries as well as with emerging economies and developing countries to ensure progress toward green growth [OECD 2009b, p.1].

To implement the provisions of the Declaration, OECD called the donor community to develop, as a horizontal project, a Green Growth Strategy in order to achieve economic recovery and environmentally and socially sustainable economic growth. The Strategy was intended to analyze green growth measures in OECD as well as in major non-member countries [OECD 2009b, p.1-2].

"Green Economy". UNEP defines a green economy as one that results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities. In a green economy, growth in income and employment should be driven by public and private investments that reduce carbon emissions and pollution, enhance energy and resource efficiency, and prevent the loss of biodiversity and ecosystem services. These investments need to be catalyzed and supported by targeted public expenditure, policy reforms and regulation changes. The development path should maintain, enhance and, where necessary, rebuild natural capital as a critical economic asset and as a source of public benefits, especially for poor people whose livelihoods and security depend on nature.

The transition toward a green economy will occur when the international community has fully rejected the brown economy based on the use of energy from fossil fuels (oil and gas) [UNEP 2011].

UNEP supports developing countries in their transition toward a green economy through implementation of a range of special projects. The projects implemented by the UNEP include: a program of development of organic agriculture in Cuba that emerged as a necessary response to the food crisis that gripped the nation in the early 1990s; a project for the development of solar energy in Barbados, designed to rectify the country's overreliance

on imported fossil fuels; a program of waste management in the Republic of Korea aimed at encouraging reusing waste as an energy resource; a program of woodlot management in Tanzania which is integral to a strategy for climate change adaptation and which has created a new stream of income for local communities and revenues for the city, while enhancing resilience to climate vulnerability[158].

4. Climate change and international development cooperation

The changes occurring to the global climate can seem remote compared with such immediate problems as poverty, disease and economic stagnation. Yet without addressing the problem of climate change impact, progress towards resolving these other core development priorities will be seriously undermined.

Climate change will increasingly affect basic elements of life for people around the world: water availability, food production, health and the environment. The impact of climate change on progress towards the MDGs is negative (Box 15.1). If left unchecked, climate change could cause significant economic and ecological disruption especially for already vulnerable populations, including women and children [OECD 2010, p.66].

"Although many development activities may help to reduce vulnerability to many climate-change impacts, other development initiatives may increase vulnerability. For example, coastal zone development plans that fail to take into account sea level rise will put people, industries and basic infrastructure at risk and prove unsustainable in the long term. This type of negative impact is called "maladaptation". In addition, climate change considerations may raise the importance of supporting such sectors as agriculture, rural development and water resource management" [OECD 2010, p.65-74].

Table 15.1. Possible impact of climate change on the MDGs

Millennium Development Goal	Examples of links with climate change
Eradicate extreme poverty and hunger (**Goal 1**)	Climate change is expected to reduce the assets of many poor people, alter the path of economic growth, and worsen regional food security. Water resources are likely to be stressed through increased evaporation losses and increasing water demands resulting from rising temperatures. Food production, which is closely linked to water availability, will face increased stress in regions where water is scarce.
Promote gender equality and empower women (**Goal 3**)	In the developing world in particular, women are disproportionately involved in natural resource-dependent activities, such as agriculture, which are particularly vulnerable to climate change.
Health-related goals (**Goals 4, 5 and 6**)	Climate change may affect health directly through increased temperatures, heat waves, floods, droughts and storms; and indirectly through increased disease incidence and reduced quantity and quality of food and water.
Ensure environmental sustainability (**Goal 7**)	Climate change is likely to alter the quality and productivity of natural resources and ecosystems which contribute a significant share of income in developing countries. Coastal zones are particularly vulnerable to the impacts of sea level rise, storm surges, and increases in the intensity of cyclones in certain regions.

Source: OECD. 2010 Development Cooperation Report, p.66

158 Success Stories // United Nations Environmental Programme Web-site. URL: http://www.unep.org/greeneconomy/SuccessStories/tabid/29863/Default.aspx

Poor people and poor countries will bear the brunt of climate change. This is because developing countries, and notably the least developed, rely heavily on climate-sensitive sectors, and have high levels of poverty, low levels of education and limited human, institutional, economic, technical and financial capacity [OECD 2010, p.67].

The international community has developed two strategies two tackle the climate change issue:

- *Mitigation*: reducing climate change itself, by lowering emissions of greenhouse gases.
- *Adaptation*: taking action to reduce the adverse consequences of climate change, as well as to harness positive opportunities [OECD 2010, p.68].

Historically, the majority of greenhouse gas emissions have come from developed countries. The United Nations Framework Convention on Climate Change recognizes that all countries should protect the climate system for the benefit of present and future generations, on the basis of equity and in accordance with common but differentiated responsibilities and respective capabilities. Accordingly, the developed countries should take the lead in combating climate change and its adverse effects. The most advanced developing countries also have an important role to play. At the same time, against the background of a projected doubling of world greenhouse gas emissions by mid-century, it is essential for all countries to move towards low-carbon growth paths.

While mitigating climate change is absolutely critical, the climate is already changing, and some countries are already feeling the effects. Therefore, adaptation is all the more urgent and needs to become integral to economic policies, development projects and international aid efforts. In 2006, development and environment ministers from OECD countries endorsed the Declaration on Integrating Climate Change Adaptation into Development Co-operation, in which they called for "meaningful co-ordination and sharing of good practices" *Integrating Climate Change Adaptation into Development Co-operation: Policy Guidance* was published in response to this request [OECD 2009b].

5. Monitoring and impact evaluation of development assistance programs in the environment sector

Being one of priorities of the world politics, the issues of climate change and therefore, of impact evaluation of development programs and projects in the sphere of environment draw a lot of attention of international organizations and researchers.

According to Prowse and Snilstveit, "substantial and increasing amounts of funding are available for climate change interventions. To ensure effective allocation of these resources, the selection and design of climate change mitigation and adaptation interventions should be based on evidence of what works, what does not, under what circumstances and at what cost" [Prowse and Snilstveit 2010, p.5].

In recent years there has been a debate on the increasing use of Impact Evaluation (IE) in international development in different sectors, including environment. IE is based on counterfactual analysis that involves "a comparison between what actually happened and what would have happened in the absence of the intervention" (See more in Lecture №10).

The estimated impact of the intervention is calculated as the difference in mean outcomes between a "treatment group" (those receiving the intervention) and a "control group" (those who do not) [Prowse and Sniltsvelt 2010, p.17].

The application of rigorous IE techniques to assess the effectiveness of climate change interventions has so far been limited. The evaluation methodologies are largely based on desk review, interviews and short field visits [Prowse and Snilstveit 2010, p.17].

While there is a clear lack of rigorous IEs of climate change interventions, a few notable examples of IE on conservation interventions stand out. These studies are focused on three types of interventions, namely: protected areas; payment for environmental services; and decentralized forest management [Prowse and Sniltsvelt 2010, p.22].

Protected areas have long been used for environmental conservation. There are examples of rigorous impact evaluations of these policies in Costa Rica, Indonesia and Thailand, respectively, using matching techniques to construct a counterfactual and to evaluate the impact on the protected area of avoided deforestation [Prowse and Sniltsvelt 2010, p.22].

Irrespective of the aforementioned difficulties, the IE approach has been getting widespread attention in the sphere of environment. It has already proven to be effective for impact evaluation of environmental programs as implemented by multilateral institutions.

SELF-CHECK QUESTIONS

1. What are the reasons behind an increase in relevance of climate change and environmental protection for international development assistance?
2. What are environmental global public goods? What are their specific features?
3. What global public bad is formed in parallel to the dispersion of environmental global public goods?
4. When did the idea about integration of development and environment agendas emerge? What instigated its emergence?
5. Which development issues determine the resilience of the international community to environmental changes today?
6. What is sustainable development? What is specific about the implementation of this concept in the sphere of international development assistance?
7. What international events formed the contemporary development agenda in the environment sector?
8. What is specific about assistance to the environment sector? What are the main challenges to provision of such assistance?
9. Does change of climate and environmental degradation affect achievement of the MDGs?
10. What are "green growth" and the "green economy"?

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GLOSSARY

1. **Absolute poverty.** A certain level of poverty under which people can afford only minimal standards of food, clothing, health care and shelter.
2. **Absorptive capacity**. A given country's capacity to use efficiently external financial resources, including bilateral and multilateral development assistance.
3. **Adaptation**. A system of initiatives and measures aimed to reduce the vulnerability of natural and human systems in response to actual or expected effects of climate change.
4. **Agribusiness**. A generic term for the various businesses involved in food production, including farming, and contract farming, seed supply, agrichemicals, farm machinery, wholesale distribution, processing, marketing, and retail sales.
5. **Aid channel**. A first implementing partner in a chain of delivering financial and other development assistance.
6. **Aid effectiveness**. An achievement of stated outcomes of economic and human development. The major sources for enhancing aid effectiveness include: reduction of conditionality; capacity building, and support for institution-building.
7. **Aid efficiency**. Returns from development measured against the cost of implementations. Returns can be measured empirically based on certain development indicators and the past experiences of implementing development programs.
8. **Aid for trade**. A special instrument of the World Trade Organization which is aimed at engaging developing countries into world trade, and for building their capacities to expand external trade. Aid for trade includes: 1) technical assistance for trade policy and regulations (e.g. helping countries to develop trade strategies, negotiate trade agreements, and implement their outcomes); trade-related infrastructure (e.g. building roads, ports, and telecommunications networks to connect domestic markets to the global economy); productive capacity building, including trade development (e.g. supporting the private sector to exploit their comparative advantages and diversify their exports) etc.
9. **Aid fragmentation**. An uncontrollable proliferation of identical or very similar projects implemented by different donors in one sector in a given recipient country.
10. **Aid structure**. Distribution of aid by region, country, sector and type (tied/untied etc.).
11. **Aid volatility**. Instability of aid flows experienced by the recipient country; a gap between levels of commitments and disbursements.
12. **Basic education**. The whole range of educational activities which take place in various settings (formal, non-formal and informal), that aim to meet basic learning needs. According to the International Standard Classification of Education (ISCED), basic education comprises primary education (first stage of basic education) and lower secondary education (second stage).
13. **Bilateral Development Aid**. An assistance provided voluntarily by one sovereign nation to another on the basis of bilateral interstate agreement.
14. **Biodiversity**. The degree of variation of life forms within a given species, ecosystem, biome, or the entire planet.

15. **Biofuel**. A type of liquid, gasified or solid fuel whose energy is derived from biological carbon fixation.
16. **Capital Fundamentalism**. A paradigm postulating that an increase in investments automatically leads to higher growth rates.
17. **Center and Periphery**. A division of the world into the economic «Centre», consisting of rich industrialized nations of the North, and the «Periphery» (poor nations of the South), suggested by the Argentinian Economist Raul Prebisch.
18. **Complementary investments**. According to a new growth theory, state investments in production and social infrastructure to stimulate private entrepreneurship.
19. **Concessional loan**. A loan with a grant-element of not less than 25%; in a broader sense - a credit with interest rates which are lower than market terms.
20. **Counterfactual outcome**. A hypothetical outcome, i.e. what would have happened in the absence of the intervention.
21. **Critical minimum effort**. A minimum level of investments required for a transition to self-propagating growth (12-15% of GNI, according to the U.S. economist H. Liebenstein)
22. **Debt relief**. An agreement between a creditor and a debtor country on the conditions of alleviation of a debt burden through partial or full debt forgiveness, restructuring, rescheduling etc.
23. **Deforestation**. Natural or anthropogenic process that transforms wooded areas into deforested ones.
24. **Dependent/Peripheral capitalism**. According to the representatives of Neo-Marxist theory of neo-colonialism, a type of economic system that emerges in the Third World countries as a result of dependency from the developed countries.
25. **Desertification**. A soil degradation in arid, semi-arid and desert areas as a result of different factors, including climate change and human activities where the outcome is expansion of the desert.
26. **Development**. A process aimed at the enhancement of a population's living standards, income, quality of food, health and education services through economic growth. Other aspects of development include: 1) creation of the conditions for fostering the self-respect of individuals through the creation of necessary economic, social and political institutions; 2) enhancement of individual's personal freedom through creating new opportunities and ensuring better access to goods and services:
27. **Development aid**. A transfer of various resources (goods, food, technical assistance, financial resources, concessional loans) to developing countries to satisfy the basic needs of their population, reduce poverty and ensure basic rights and freedoms.
28. **Development theory.** A discipline that studies the causes of the underdevelopment of countries and the ways to eradicate it.
29. **Digital divide**. An economic inequality between groups, broadly construed, in terms of access to, use of, or knowledge of information and communication technologies (ICT). The divide inside countries (such as the digital divide in the United States) can refer to inequalities between individuals, households, businesses, and geographic areas at different socioeconomic and other demographic levels.

30. **Donor**. A sovereign nation or organization which provides development assistance.
31. **Donor coordination**. Coordination of activities between donors.
32. **Donor proliferation**. An increase in number of donors.
33. **Economic development**. The process of structural transformations in which the real per capita income of a population grows during a long period of time against the background of conservation or diminishment of the absolute scope of poverty that leads to higher standards of living, lower unemployment, better access to education, health and culture.
34. **Economic growth**. A growth of gross domestic product or gross national income.
35. **Economic stagnation**. Economic dynamics with growth rates near zero.
36. **Endogenous price distortions**. Price distortions caused by deficiencies of market mechanisms.
37. **Energy generation and supply**. Energy sector policy, planning and programs, and aid to power generation of both renewable and non-renewable sources.
38. **Evaluation**. Attempts to systematically and objectively assess progress towards and the achievement of an outcome. Evaluation is not necessarily a one-time event, but can be an exercise involving assessments of differing scope and depth carried out at several points in time in response to evolving needs for evaluative knowledge and learning during the effort to achieve an outcome. All evaluations—even project evaluations that assess relevance, performance and other criteria—need to be linked to outcomes as opposed to only implementation or immediate outputs.
39. **Ex ante impact evaluation**. Attempts to measure the intended impacts of future programs and policies, given a potentially targeted area's current situation, and may involve simulations based on assumptions about how the economy works.
40. **Ex post evaluation**. The measurement of actual impacts accrued by the beneficiaries that are attributable to the program intervention.
41. **Exogenous price distortions**. Price distortions resulting from the state interventions in the economy.
42. **Experimental evaluation methods**. Evaluation methods based on randomized control designs – a random selection of beneficiaries' control group. In this case there should be no differences between two groups' conditions apart from one group being affected by the program and having access to its outcomes and the other group not receiving the program.
43. **External effects of aid**. Economic and political effects from development assistance.
44. **Food aid**. Provision of concessional assistance in the form of goods or money to acquire with aim of supporting the implementation of food programs.
45. **Food security**. Security at the individual, family, national, regional and global levels that is achieved when all people have a physical and economic access to a sufficient amount of safe and nutrient goods for satisfaction of their needs and food preferences for active and health life.
46. **Foreign aid.** A voluntary transfer of resources (goods, skills, know-how, grants, credits (loans)) by one country to another on concessional terms.

47. **Foreign Direct Investment (FDI)**. A direct investment into production or business in a country by a company in another country, either by buying a company in the target country or by expanding operations of an existing business in that country.
48. **Foreign exchange gap**. A concept used in H.Chenery and A.Strout's "two-gap model" to describe a situation when a country's balance of payments on current account deficit is greater than the value of capital inflows.
49. **Formative evaluation**. A method of evaluation aimed at ensuring that the program will achieve the anticipated outcomes. Practice of conducting formative evaluation should be used by the management at each stage of project cycle.
50. **Fragile state**. A state which is unable to meet its population's expectations and or manage changes in expectations and capacity through the political process.
51. **Fund**. A public organization that manages funds for socially significant goals.
52. **Gender equality**. Equality between genders which is aimed at securing equal opportunities for men and women and equal respect for their rights and obligations.
53. **Global South**. A concept that encapsulates the global inequality between the rich Northern and poor Southern countries.
54. **Globalization**. A gradual and deepening process of internationalization of the world economic, political, social, and cultural linkages.
55. **Grant**. A transfer made in cash, goods or services for which no repayment is required. Grants also include debt relief monies, transfers to NGOs, some donor country's expenditures related to the implementation of aid programs and grant-like flows.
56. **Grant-element**. An integral indicator used for comparing the concessionality level of various loans, expressed as the percentage by which the present value of the expected stream of repayments falls short of the repayments that would have been generated at a given reference rate of interest.
57. **Green economy.** Economy oriented at improving human wealth and social equality through a significant reduction of risks from the changes to the environment.
58. **Health Expenditures**. A sum of governmental and private health expenditures.
59. **Human development**. A concept offered by the Nobel Prize winner (1998) Amartya Sen among others which postulates that economic growth can be considered development only if it satisfies basic human needs.
60. **Human Development Index**. An integral index of a level of development of national economy that measures progress in three spheres: lengthy and healthy life of population; access to education and a decent standard of living.
61. **Human security.** A concept of security that challenges the former state-centered theoretical approaches to security. Its proponents focus on the welfare of an individual human being as a referent object of security policies.
62. **Import substitution industrialization**. Industrialization aimed at the creation of sectors that produce goods which substitute for foreign imports.
63. **Inclusive development**. A type of development encompassing all groups of a population irrespective of gender, age, nationality, sexual orientation, physical ability and economic wealth. Inclusive development policies are oriented at eradicating inequality which has been deepening across the globe despite economic growth.

64. **Industrialization**. A process of social-economic transition from an agrarian to industrial society with a dominance of industrial production in the economy.
65. **Information and Communication Technologies**. Equipment for processing and transferring information, program software, computer networks, digital data storage devices, and a related complex of services.
66. **International transportation corridor**. A part of the national or international transportation system that allows for the significant volume of international cargo and passenger transits between given geographic areas. It includes the rolling stock and stationary facilities of all transportation types, as well as a complex of technological, organizational and legal conditions of making these transits.
67. **Landlocked Developing Countries (LLDCs)**. The group of landlocked countries entirely enclosed by land, or whose only coastlines lie on closed seas and whose geographical position results in higher transaction costs of external trade, which limit their economic development. There are 48 landlocked countries in the world; 31 of which are considered developing countries.
68. **Least developed countries**. The countries included in the list composed by the UN and revised each three years. A country is classified as a Least Developed Country if it meets three criteria: 1) Poverty (three-year average GNI per capita of less than US$905, which must exceed $US1,086 to leave the list); 2) human resource weakness (based on indicators of nutrition, health, education and adult literacy) and 3) economic vulnerability (based on instability of agricultural production, instability of exports of goods and services, economic importance of non-traditional activities, merchandise export concentration, handicap of economic smallness, and the percentage of population displaced by natural disasters) The classification (as of 1 January 2011) applies to 48 countries.
69. **Literacy**. According to the UNESCO definition adopted in 1958, "the ability to read and write, with understanding, a short, simple sentence about one's everyday life". With time literacy concept has undergone changes and now encompasses a group of skills in many spheres where each has its own scale of measurement of level of absorption skills and serves different purposes.
70. **Loans (Credits).** Transfers of financial or in-kind resources for which repayment is required.
71. **Low-level equilibrium trap**. A concept in economics developed by Richard R. Nelson, in which at low levels of per capita income people are too poor to save and invest much, and this low level of investment on a country basis results in low rate of growth in national income. As per capita income rises above a certain minimum level (at which there is zero savings), a rising proportion of income will be saved and invested and this will lead to a higher rate of growth in income.
72. **Malthusian trap.** A dependence between economic growth and population growth rates where each short-term increase in economic growth rates automatically leads to increase in fertility rates; population growth automatically decreases the level of income per capita and fertility rates, and finally results in slower economic growth.

73. **Millennium Development Goals (MDGs)**. Eight international development goals that were officially established following the Millennium Summit of the United Nations in 2000, following the adoption of the United Nations Millennium Declaration. 193 United Nations member states, and at least 23 international organizations, have agreed to achieve these goals by the year 2015. The goals are: Eradicating extreme poverty and hunger, Achieving universal primary education, Promoting gender equality and empowering women, Reducing child mortality rates, Improving maternal health, Combating HIV/AIDS, malaria, and other diseases, Ensuring environmental sustainability, and Developing a global partnership for development.
74. **Multidimensional poverty**. Poverty which is not limited to deprivation of wealth but includes limitations of access to education, basic health services, clean water and other aspects of social inequality that have negative impact on lives of non-privileged groups of population.
75. **Mitigation**. Prevention of climate change through a reduction of carbon dioxide emissions levels.
76. **Modernization**. A process of transition from traditional to industrial society (society of modernity).
77. **Monitoring**. A systematic collection of information on the level of achievement of given outcomes of a project or program.
78. **Multilateral development aid**. Aid provided by the countries who are members of international organization to a country-member of that organization, on the basis of an international agreement.
79. **Multilateral development bank**. An international financial institution that provides development loans. In general MDB's activities have a regional scope (Asian Development Bank, African Development Bank, Inter-American Bank, European Bank of Reconstruction and Development). The only exclusion is the International Bank for Reconstruction and Development, a specialized UN agency, whose activities have a global scope.
80. **New donors**. Donor countries which are not members of the OECD-DAC.
81. **Newly Industrialized Countries**. A grouping of former developing countries that got out of the "underdevelopment trap" and completed the industrialization (Thailand, Indonesia, Singapore, Philippines etc.)
82. **Non-equivalent exchange mechanism**. An algorithm of trade exchange developed by A.Emmanuel that explains the transfer of added value generated in developing countries to developed countries because of the underestimation of the production factors in developing countries and an overestimation of production factors in developed countries.
83. **Non-experimental methods**. Matching methods or constructed controls, in which one tries to pick an ideal comparison that matches the treatment group from a larger survey.
84. **Non-governmental organizations (NGOs)**. Private organizations that pursue activities to relieve suffering, promote the interests of the poor, protect the environment, provide basic social services or undertake community development.

85. **Non-renewable resources.** Natural resources that are consumed much faster than nature can create them (coal, petroleum, peat, natural gas, uranium).
86. **Official development assistance**. Flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character, as defined by the DAC. By convention, ODA flows comprise contributions of donor government agencies, at all levels, to developing countries ("bilateral ODA") and to multilateral institutions. ODA receipts comprise disbursements by bilateral donors and multilateral institutions. ODA by definition needs to contain the three elements: (a) undertaken by the official sector, including federal and regional governments ; (b) with promotion of economic development and welfare as the main objective; and (c) at concessional financial terms (if a loan, having a grant element of at least 25 per cent, using a fixed 10 percent rate of discount.
87. **Organizational structure of management**. A complex of specialized functional units engaged in the process of justifying, elaborating, making, and implementing management decisions.
88. **Other Low-Income Countries.** Developing countries that are not being classified as the least developed countries and have a GNI per capita less than US$1005.
89. **Other official flows**. Financial flows that include transactions by the official sector with countries on the DAC List of ODA Recipients which do not meet the conditions for eligibility as Official Development Assistance, either because they are not primarily aimed at development, or because they have a grant element of less than 25 per cent.
90. **Partially untied aid**. Official development assistance (or official aid) for which the associated goods and services must be procured in the donor country or among a restricted group of other countries, which must however include substantially all developing countries.
91. **Peacebuilding**. Activities undertaken by international and national actors and NGOs to promote peace understood both as absence of armed violence ("negative peace") and a minimum level of societal participation in the political process (as a component of "positive peace") that can be maintained in the absence of peacekeeping operation.
92. **Philanthropy**. Provision of gratuitous or concessional aid to those in need both collectively (through funds, organization) and in individual philanthropy. Philanthropy and patronship is characterized by a free choice of form, time and place of providing aid.
93. **Pioneers of development.** A group of countries that launched the industrialization in the 19th century.
94. **Poverty**. A pronounced deprivation in well-being that includes low incomes and the inability to acquire the basic goods and services necessary for survival with dignity; low levels of health and education, poor access to clean water and sanitation, inadequate physical security, lack of voice, and insufficient capacity and opportunity to better one's life.
95. **Poverty reduction strategy**. Strategy aimed at economic growth and poverty reduction through the implementation of economic and social reforms and relative programs.

96. **Poverty trap**. «Any self-reinforcing mechanism which causes poverty to persist.»
97. **Private-Public Partnership**. A form of cooperation between state institutions and private corporations aimed at financing construction, reconstruction, management, infrastructure, and service delivery.
98. **Progress**. A direction of development, a transition from inferior to superior. Progress implies going forward, as opposed to development that can regress and experience impasses.
99. **Propensity score matching**. A statistical matching technique that attempts to estimate the effect of a treatment, policy, or other intervention by accounting for the covariates that predict receiving the treatment.
100. **Pro-poor growth**. A type of economic dynamics under which the income of the poor grows at a higher rate than income of other social groups.
101. **Prospective evaluation**. Evaluation which can be carried out before a program is launched. The objective of this evaluation is to assess the advisability of implementation and evaluation of the program/project in order to understand if the prospective outcomes are worth the costs and inputs.
102. **Recipient**. A country which receives aid.
103. **Renewable resources**. Ecologically clean natural sources which are sources of energy(solar, wind, ocean, hydro power) that can be replenished naturally with the passage of time
104. **Results-based management**. A management approach in which an organization guarantees that its activities will contribute to the achievement of clearly established outcomes. Aimed at the increased effectiveness of management through achievement of anticipated results and the integration of lessons learned into subsequent management decisions.
105. **Savings gap**. A concept used in H.Chenery and A.Strout's "double deficit model" to describe a situation when domestic savings are inadequate to support the level of growth which would result given the import purchasing power of the economy and the level of other resources.
106. **Self-propagating economic growth**. Economic dynamics characterized by the market mechanism of distribution of economic growth that results in a gradual increase in income of all population groups.
107. **Singer-Prebisch thesis**. A thesis postulating that countries that export commodities (developing countries) in time would import fewer manufactured goods relative to a given level of exports. A common explanation for the phenomenon is the observation that the income elasticity of demand for manufactured goods is greater than that for primary products - especially food. Therefore, as incomes rise, the demand for manufactured goods increases more rapidly than demand for primary products.
108. **Social assistance**. Measures taken by the government to transfer financial resources to deprived populations. Social assistance includes money transfers to poor households; providing housing to orphans and elders; programs of social rehabilitation; food subsidies.

109. **Social policy**. Policy implemented by governments to regulate social structures and market institutions; provision of social services, such as education, health, employment, social security.
110. **Social protection**. Political measures aimed at strengthening resilience of populations to various risks; strengthening of their ability to protect themselves in periods of higher risks and economic instability. Instrument of social protection policy includes social security and social assistance to the population.
111. **Social sectors**. A group of sectors including education, health; water and sanitation; population; governance and civil society; conflict resolution and security; that are closely interrelated with other sectors such as environment, production, infrastructure.
112. **Stakeholders**. Groups, organizations, or individuals who are affected by the activities of an organization and depend on it.
113. **State-building** Endogenous, nationally-led process of strengthening state capacity, institutions, and legitimacy influenced by the dynamics of state-society relations.
114. **Structural transformation**. Process of transformation of a national economy that implies changes in employment structure, production, export, import and the correlation between production of goods and natural resources.
115. **Summative evaluation**. A study conducted at the end of an intervention (or a phase of that intervention) to determine the extent to which anticipated outcomes have been produced.
116. **Sustainable development**. Development that satisfies the needs of the current generation and does not create risks and harm for future generations. Proponents of this concept state that exploitation of natural resources, investments and scientific-technical progress, as well as human and social development must be harmonized and strengthen current and future potential for satisfaction of human needs.
117. **Tied aid**. Official grants or loans where procurement of the goods or services involved is limited to the donor country or to a group of countries which does not include substantially all aid recipient countries. Tied aid loans, credits and associated financing packages are subject to certain disciplines concerning their concessionality levels, the countries to which they may be directed, and their developmental relevance so as to avoid using aid funds on projects that would be commercially viable with market finance.
118. **Trade facilitation**. A complex of measures aimed at facilitation of procedures in international trade; a component of aid-for-trade programs.
119. **Transaction costs**. Operational costs beyond the main production costs; secondary costs, related to management, getting information, bargaining, searching for contractors; signing contracts, licensing, securing protection rights, overcoming barriers of entry to the market.
120. **Two-gap model**. A model of economic growth with two deficits developed by the American economists H. Chenery and A. Strout that shows the potential of using development aid to overcome internal limitations to development in Third World countries.

121. **Underdevelopment**. Economic and social situation characterized by low living standards; the presence of absolute poverty; low income per capita and low consumption levels; slow economic growth rates; unsatisfactory medical care; high mortality and birth rates; dependence on foreign powers and limitations on maneuvering resources aimed for consumption.,
122. **Untied Aid**. Credits and loans for which the associated goods and services may be fully and freely procured in substantially all countries.
123. **Urbanization**. Economic and demographic growth in urban centers.
124. **Value chain**. A chain of activities from producing product or service to its delivery to the customer.

LIST OF ABBREVIATIONS

ABC	Agência Brasileira de Cooperação – Brazilian Cooperation Agency
ABEDA	Arab Bank for Economic Development in Africa
ACC	Arab Cooperation Council
AfDB	African Development Bank
AFESD	Arab Fund for Economic and Social Development
AG	Andean Group
AMF	Arab Monetary Fund
ADB	Asian Development Bank
ARTF	Afghanistan Reconstruction Trust-Fund
ASEAN	Association of Southeast Asian Nations
BRICS	Brazil-Russia-India-China-South Africa
CAR	Central African Republic
CAREC	Central Asia Regional Economic Cooperation
CCNM	Center for Cooperation with Non-Members
CDB	Caribbean Development Bank
CES	Common Economic Space
CGD	Center for Global Development
CIDA	Canadian International Development Agency
CIS	Commonwealth of Independent States
Comecon	Council for Mutual Economic Assistance
CPIA	Country Policy and Institutional Assessment
CPC	Communist Party of China
CSO	Civil Society Organization
DAC	Development Assistance Committee
DDR	Disarmament, demobilization and reintegration
DFID	Department for International Development
DRC	Democratic Republic of Congo
EADB	East African Development Bank
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECA	Economic Commission for Africa
ECAFE	Economic Commission for Asia and the Far East;
ECE	Economic Commission for Europe
ECFS	Eurasian Center for Food Security
ECLAC	Economic Commission for Latin America and the Caribbean
ECOSOC	Economic and Social Council
ECOWAS	Economic Community of West African States
ECWA	Economic Commission for Western Asia
EDF	European Development Fund
EEC	Eurasian Economic Community
EIB	European Investment Bank

EMERCOM	Ministry for Civil Defense, Emergencies and Elimination of Consequences of Natural Disasters of the Russian Federation
EPTA	Expanded Program of Technical Assistance
ESCAP	Economic and Social Commission for Asia and the Pacific
ESCWA	Economic and Social Commission for Western Asia
EU	European Union
EurAsEC	Eurasian Economic Community
FAO	Food and Agriculture Organization
FDI	Foreign direct investments
GA	General Assembly of the United Nations
GAVI	Global Alliance for Vaccination and Immunization
GEF	Global Environmental Facility
GNI	Gross national income
GPBs	Global public bads
GPGs	Global public goods
HIPC	Heavily-Indebted Poor Countries
HDI	Human Development Index
IADB	Inter-American Development Bank
IAEA	International Atomic Energy Agency
IATI	International Aid Transparency Initiative
IBEC	International Bank for Economic Cooperation
IBSA	India-Brazil-South Africa
IBRD	International Bank for Reconstruction and Development
IPCC	Intergovernmental Panel on Climate Change
ICRC	International Committee of the Red Cross
ICSID	International Centre for Settlement of Investment Disputes
ICT	Information and communication technologies
IDA	International Development Association
IDPS	International Dialogue on Peacebuilding and Statebuilding
IEA	International Energy Agency
IFAD	International Fund for Agricultural Development
IFFIm	International Finance Facility for Immunization
IFC	International Finance Corporation
ILO	International Labor Organization
IMF	International Monetary Fund
INCAF	International Network on Conflict and Fragility
INGO	International non-governmental organization
IOM	International Organization for Migration
IsB	Islamic Development Bank
ITEC	Indian Technical and Economic Cooperation
KSA	Kingdom of Saudi Arabia
LDC	Least developed country
LOTFA	Law and Order Trust-Fund for Afghanistan

MIGA	Multilateral Investment Guarantee Agency
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
MDGs	Millennium Development Goals
MDR	managing for development results
MDRI	Multilateral Debt Relief Initiative
MDTF	multi-donor trust fund
MEPI	Middle East Partnership Initiative
MFA	Ministry of Foreign Affairs
MPI	Multidimensional Poverty Index
NAM	Non-Aligned Movement
NATO	North Atlantic Treaty Organization
NIB	Nordic Investment Bank
NIC	Newly industrializing country
NGO	Non-governmental organization
NORAD	Norwegian Agency for Development Cooperation
ODA	Official development assistance
ODF	Official development finance
OECD	Organization for Economic Cooperation and Development
OFID	OPEC Fund for International Development
OIC	Organization of the Islamic Conference
OOF	Other official flows
OPEC	Organization of Petroleum Exporting Countries
PEPFAR	President's Emergency Plan for AIDS Response
PBAs	Program-based approaches
PCNA	Post-conflict needs assessment
PIU	Project implementation unit
PPP	Public-private partnership
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
READ	Russia Education Aid for Development
RG	Rio Group
SADCC	Southern African Development Coordination Conference
SCAAP	Special Commonwealth Assistance for Africa Programme
Sida	Swedish International Development Authority
SSC	South-South cooperation
SSDC	South-South development cooperation
SSR	Security sector reform
SWAC	Sahel and West Africa Club
SWAP	Sector-wide approach
TNC	Transnational company
TRF	Transitional results framework
UAE	United Arab Emirates

UN	United Nations
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNCED	UN Nations Conference on Environment and Development
UNCHS	United National Center for Human Settlements (also known as Habitat)
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific, and Cultural Organization
UNFCCC	United Nations Framework Convention on Climate Change
UNFPA	United Nations Fund for Population Activities
UN-HABITAT	United Nations Human Settlements Programme
UNHCR	United Nations Office of the High Commissioner for Refugees
UNICEF	United Nations International Children's Emergency Fund
UNIDO	United Nations Industrial Development Organization
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
USAID	United States Agency for International Development
WADB	West African Development Bank
WFP	World Food Programme
WHO	World Health Organization
WMO	World Meteorological Organization
WTO	World Trade Organization

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