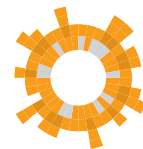


# The Busan Commitments on Managing Diversity and Reducing Fragmentation: Stock-take and Emerging Issues



**Building Block**  
Managing Diversity and  
Reducing Fragmentation

February 2014

Report of the Busan Building Block  
Managing Diversity and Reducing Fragmentation

## Foreword

This stocktaking report aims to track the status and progress made against the time-bound and other commitments formulated in §25 of the Busan Partnership document. It highlights emerging trends and practices with regarding to managing diversity and reducing fragmentation, identifies promising ways and obstacles for boosting further progress in this area and tables recommendations to the Global Partnership for Effective Development Cooperation and the international community.

In March 2013, the members of the post-Busan Building Block “Managing Diversity and Reducing Fragmentation” decided to produce this report. The work has been guided by the Building Block co-chairs Germany (Martina Metz, Claudia Hiepe) and Uganda (Lawrence K. Kiiza, Fred Twesiime), and a core team of Building Block representatives from partner countries and development partners. The lead authors conducted a long series of interviews for this report (see Annex 4).

The publication benefited from many comments and suggestions during various rounds of comments in the Building Block. These valuable contributions from Building Block members and from the interviewees are gratefully acknowledged. The draft report was presented and discussed at the 2<sup>nd</sup> workshop of the Building Block “Managing Diversity and Reducing Fragmentation” in Kampala, Uganda on December 3-4, 2013.

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The Busan Building Block “Managing Diversity and Reducing Fragmentation” provides a unique global platform where representatives from partner country governments and development partners work together to ask the question how international aid fragmentation and proliferation can be reduced and capacity for managing the diversity of international aid improved. The Building Block Members are: Bangladesh, Cameroon, Czech Republic, Honduras, Madagascar, Malawi, Moldova, Peru, Rwanda, Tuvalu, Uganda, Zambia, Austria, Estonia, Finland, France, Germany, Netherlands, Poland, Sudan, Sweden, Action Aid/CPDE, European Commission, GFATM, OECD DCD/DAC and UNDG.

For more information on the Building Block: [www.fragmentation-diversity.org](http://www.fragmentation-diversity.org).

## Table of Contents

Foreword .....	i
List of Abbreviations .....	iv
Executive Summary.....	1
Introduction.....	4
1 Managing Diversity and Reducing Fragmentation at the Partner Country Level: Developments and Lessons from Bangladesh and Rwanda .....	6
1.1 Introduction .....	6
1.2 The Case of Bangladesh .....	10
1.2.1 The Role of Aid in Bangladesh’s Development Finance .....	10
1.2.2 Aid Fragmentation in Bangladesh .....	11
1.2.3 Aid Coordination in Bangladesh.....	12
1.2.4 Enabling Factors and Stumbling Blocks for Reducing Fragmentation and Managing Diversity .....	15
1.3 Comparing the Aid Diversity Management System of Bangladesh with Rwanda.....	18
1.4 Conclusions and Recommendations .....	22
2 Proliferation and Coordination of Multilateral Aid .....	25
2.1 Introduction .....	25
2.2 Stock-take on Implementation of § 25b Commitments .....	26
2.2.1 Improved Coherence of Policies on Multilateral Institutions .....	26
2.2.2 Effective use of existing multilateral channels .....	28
2.2.3 Reduced Proliferation of Multilateral Channels and Principles for Joint Efforts .....	30
2.2.4 Strengthened Participation in Coordination and Mutual Accountability Mechanisms .....	35
2.3 Challenges and Opportunities in Implementation .....	40
2.3.1 Challenges and Opportunities at the Donor Level .....	40
2.3.2 Challenges and Opportunities at the Multilateral Organisation Level.....	41
2.3.3 Challenges and Opportunities at the Partner Country Level.....	42
2.4 Conclusions and Recommendations .....	43
3 The Issue of Under-Aided Countries .....	46
3.1 Introduction .....	46
3.2 Under-Aided Countries: Analysis of an Elusive Phenomenon .....	47
3.2.1 Identification of Under-Aided Countries .....	47
3.2.2 Causes Underlying the Phenomenon of Under-Aided Countries .....	49
3.2.3 The Partial Compensatory Role of Multilateral and Non-DAC Donors .....	51

3.3	Comparative Case Study of Two Potentially Under-Aided Countries .....	51
3.3.1	Case Study I: Madagascar .....	52
3.3.2	Case Study II: Bangladesh .....	55
3.4	Conclusions and Recommendations .....	59
4	Final Conclusions and Policy Recommendations .....	62
	Bibliography.....	67
	Annex .....	74
	Annex 1.1 Definition of Fragmentation and Concentration Ratio .....	74
Annex 1.2	Number of Donors and Aid Flows (% per donor) in Bangladesh, from 2007-2012 .....	75
Annex 1.3	Structure of the Bangladesh Development Forum .....	76
Annex 2.1	Total Use of Multilateral System by Donors.....	77
Annex 3.1	The OECD Watch List of 'Potentially Under-Funded Countries' .....	78
Annex 3.2	Bilateral vs. Multilateral Donors' Engagement in Under-Aided Countries .....	79
Annex 3.3	ODA to Madagascar (2000-2012) .....	80
Annex 4	List of Organisations and People Interviewed for the Report .....	81

## List of Abbreviations

AAA	Accra Agenda for Action
BMZ	German Ministry for Economic Cooperation and Development
BPd	Busan Partnership document
BRIC	Brazil, Russia, India and China
CPA	Country Programmable Aid
CPIA	Country Policy and Institutional Assessment
DAC	Development Assistance Committee (OECD)
DFID	Department for International Development (UK)
DoL	Division of Labour
DP	Development Partner
EU	European Union
GAVI	Global Alliance for Vaccines and Immunisation
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
GoB	Government of Bangladesh
GPEDC	Global Partnership for Effective Development Cooperation
GNI	Gross National Income
HDI	Human Development Index
IDA	International Development Association
ISDB	Islamic Development Bank
IMF	International Monetary Fund
KfW	KfW Development Bank
LCG	Local Consultative Group
LDC	Least Developed Country
LIC	Low Income Country
MDGs	Millennium Development Goals
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PD	Paris Declaration on Aid Effectiveness
PFM	public financial management
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
WB	World Bank

## Executive Summary

Reducing fragmentation and effectively managing the diversity of aid has been increasingly recognized as a challenge since the Paris Declaration on Aid Effectiveness in 2005. The 4th High Level Forum on Aid Effectiveness in Busan (2011) addressed the issue by agreeing on a set of commitments, some of them in form of political intentions, some of them as concrete time-bound obligations. The present report divides the subject into three sub-issues and respective parts along the lines of §25 a-c of the Busan Partnership document. Part 1 under the title “Managing Diversity and Reducing Fragmentation at the Partner Country Level” draws on lessons from the country cases of Bangladesh and Rwanda. Part 2 presents best practices and discusses remaining challenges in reducing proliferation and improving coordination of multilateral aid. Part 3 addresses the issue of under-aided countries.

Regarding Part 1, the increasing number of development partners of aid-recipient countries – combined with the decreasing size of projects, programs or other kinds of interventions – tends to translate into higher transaction costs for recipient countries. As having many development partners has clear benefits and enriches the choice of partner countries, instead of simply reducing fragmentation, many partner countries and development partners have been trying to establish effective aid diversity management systems that integrate this aid diversity and to align it with national priorities. This includes increasing aid coordination efforts along the lines of agreements on division of labour or by setting up joint country programming, sector-wide approaches, centralized, sector-specific project management units and so forth.

In Bangladesh, aid diversity management has been receiving special attention by the government since 2006. The management issue is particularly thorny against the background of Bangladesh receiving the bulk of its aid as highly fragmented project support. The government has therefore developed a comprehensive communication structure for its dialogue with donors according to sectors and selected themes and worked intensely on harmonizing implementation procedures among donors. As a next step, the country aims at rationalizing aid with the help of donor mapping, comparative advantage assessment and agreements on the division of labour.

In Rwanda, the management of aid diversity has a relatively long history as well. In 2008, the government of Rwanda conducted a donor mapping using an Aid Information Management System. The discovery of over- and under-aided sectors led Rwanda in 2010 to initiate an extensive division of labour process based on the EU Code of Conduct on Complementarity and the Division of Labour, including donor performance assessments and joint programming elements. Rwanda’s efforts are showing results. Aid management has improved. The fragmentation ratio has dropped from around 40% in the past years to 31% in 2012. Rwanda has taken a strong lead in donor coordination. Based on a clear national aid policy and development strategies, it has demonstrated strong capacity to coordinate and lead efforts at the country level. A positive donor response to the government’s quest for budget support made aid management less demanding than in Bangladesh.

Experiences from Bangladesh, Rwanda and various other countries show that reducing fragmentation and managing aid diversity is everything but easy. It relies on a strong partner country leadership and on donors willing to adjust their aid streams to national strategies and agreed-upon sector rationalisation efforts. The way forward lies in pushing further the development of aid management and respective tools. Results orientation of donors and recipients alike, transparency and predictability as well as ownership and inclusiveness are the ingredients which make the environment enabling and favourable for operating aid management systems.

Part 2 of the study addresses multilateral proliferation and coordination of multilateral aid. Multilateral assistance is currently delivered by more than 200 individual organisations, sometimes with overlapping mandates, aloof governance arrangements and very diverse standards. Against this backdrop, the international community entered – after prior agreements in Paris and Accra – at the High Level Forum on Aid Effectiveness in Busan (2011) into far-reaching commitments on how to enhance the effectiveness of the multilateral system. The coherence of donor policies on multilateral institutions, global funds and programmes was to be improved. More effective use should be made of existing multilateral channels and include a focus on good performers. Proliferation of multilateral channels needs to be curbed, inter alia by agreeing on principles for guiding joint efforts in this area. Multilateral organisations committed to strengthen their participation in coordination and mutual accountability mechanism at all levels.

Part 2 presents emerging good practices to reduce the downsides of multilateral proliferation, discusses remaining challenges donors, multilateral organisations and partner countries are facing, and comes up with recommendations for next steps. Major emerging good practices mentioned in the report are the establishment of a policy consultation forum for donors (the Senior Level Donor Meeting on Multilateral Reform), joint donor assessments of multilateral organisations' performance via the Multilateral Organisation Performance Assessment Network (MOPAN), reform efforts like the World Bank trust fund reform and the UN Delivering as One initiative, and funding reforms set out in the 2012 Quadrennial Comprehensive Policy Review (QCPR). Moreover, the Rwanda donor performance assessment is highlighted as an example for country-led coordination of (bilateral and) multilateral aid.

However, despite these good practices, overall the progress in implementing \$25b has been slow. The reasons include vested and heterogeneous interests of donor countries and multilateral organisations, a rise in earmarked contributions channelled through the multilateral system, and a lack of partner countries' involvement. Part 2 recommends Busan signatories to continue working on joint principles for the reduction of multilateral proliferation, improving coherence and consistency of donor policies concerning reform priorities and funding of the multilateral development system as well as coherently supporting structural and governance reforms of multilateral organisations.

Part 3 examines the problem of under-aided countries. In Busan donors reconfirmed their commitments to accelerate efforts to address the issue of countries that receive insufficient assistance. However, there is still no consensus on what is meant by 'insufficient aid', how it should be measured and what the term 'aid orphan' actually refers to.

Part 3 identifies the OECD watch list which monitors potentially under-aided countries as a useful basis for a common understanding of what insufficient aid means. Meanwhile, it also recommends that further evidence should be gathered on countries figuring in the watch list. Case studies on countries suspected to be under-aided should identify causes for and individual responses to the countries specific situation.

As illustrated with the examples of Bangladesh and Madagascar, the causes for insufficient aid receipts for some countries are manifold. A plethora of different approaches, goals and interests produces a complex pattern of aid allocation, which benefits well-run countries but also low-performing ones that have particular strategic importance for donors. The lower attractiveness of some recipients in terms of performance and of strategic importance combined with a general lack of coordination among donors explains why some countries do not receive sufficient aid. Donor coordination in cross-country aid allocations is hampered by the fact that aid allocation is a matter of sovereign political decision making. To achieve a more efficient resource allocation across countries, Part 3 recommends that donors take each other's allocations into account when deciding on the distribution of their aid. To do so, full transparency in the distribution of aid is needed. While the phenomenon of under-aided countries is mostly associated with neglect by bilateral donors, aid received from multilateral and non-DAC donors is not enough to compensate for disproportionately low receipts of bilateral aid. Both donors and partner countries need to explore ways to leverage other sources of financing (including beyond aid) for directing additional resources to under-aided countries.

The final section summarizes the main findings from the first three parts of the report and tables concrete policy recommendations to all Busan signatories and the Global Partnership of Effective Development Cooperation.



## Introduction

In the past decade, the number of countries and other actors providing external assistance to developing countries has increased substantially. Besides “traditional” DAC donors, quite a number of new donor countries and private actors have entered the scene, e.g., Arab states, the BRICs and other developing countries as well as private foundations and donors. The so called aid architecture has become increasingly complex. Besides, even within traditional donors, the number of aid partnerships of each actor has been multiplying in partner countries. The number of individual donor projects and programmes as well as multilateral trust funds has steadily increased over the past few years. Partner countries often receive aid in the form of many small projects and funds from many different bilateral and multilateral donors. At the same time, as providers of development assistance do not coordinate their individual aid allocations systematically, some partner countries and/or sectors appear to receive insufficient aid (“under-aided countries”, “aid orphans” and “orphan sectors”). Reducing fragmentation and managing the diversity of aid effectively has therefore been recognised as a challenge since the Paris Declaration on Aid Effectiveness (2005).

The Busan High Level Forum on Aid Effectiveness in late 2011 addressed the issue with an elaborate political response. In § 25 a-c of the Busan Partnership document (BPd), partner countries and development partners agreed on a set of commitments, some of them in the form of political intentions, some of them as concrete time-bound commitments:

*“§ 25. We welcome the diversity of development co-operation actors. Developing countries will lead consultation and coordination efforts to manage this diversity at the country level, while providers of development assistance have a responsibility to reduce fragmentation and curb the proliferation of aid channels. We will ensure that our efforts to reduce fragmentation do not lead to a reduction in the volume and quality of resources available to support development. To this end:*

*a) We will, by 2013, make greater use of country-led coordination arrangements including division of labour, as well as programme-based approaches, joint programming and delegated co-operation.*

*b) We will improve the coherence of our policies on multilateral institutions, global funds and programmes. We will make effective use of existing multilateral channels, focusing on those that are performing well. We will work to reduce the proliferation of these channels and will, by the end of 2012, agree on principles and guidelines to guide our joint efforts. As they continue to implement their respective commitments on aid effectiveness, multilateral organisations, global funds and programmes will strengthen their participation in coordination and mutual accountability mechanisms at the country, regional and global levels.*

*c) We will accelerate efforts to address the issue of countries that receive insufficient assistance, agreeing – by the end of 2012 – on principles that will guide our actions to address this challenge. These efforts will encompass all development co-operation flows.”*

While the goals are clear, the solutions are complex as each partner country and provider of development assistance has its particular characteristics and priorities. A number of different approaches have been undertaken by partner countries as well as bilateral and multilateral donors to address the challenges related to fragmented aid. Many partner countries have been trying to better

coordinate providers of development assistance and to align aid to their national development strategies. Bilateral and multilateral donors have undertaken efforts to better harmonise aid in cooperation with partner countries as well by adjusting their own organisational procedures and structures. In-country aid allocation especially has been increasingly addressed. With regard to cross-country allocation, fewer efforts have been undertaken as an international harmonisation of allocation procedures seems more difficult to be achieved.

Altogether, besides the reduction of fragmentation, a continuously stronger emphasis has been placed on the management of diversity so that best use can be made of the plurality of aid sources while avoiding the negative effects of uncoordinated aid. Whether the different coordination efforts and approaches have been having an impact on the fragmentation burden of partner countries and/or donors, or on an improved allocation of aid to partner countries, needs to be explored.

The “Stock-take Report” of the Building Block “Managing Diversity and Reducing Fragmentation” examines selected cases of country-led coordination arrangements (§25a), multilateral proliferation and coordination (§25b), and potentially under-aided countries (§25c), and derives lessons learned and, where possible, policy recommendations for the Global Partnership for Effective Development Cooperation in the context of the first Ministerial Meeting to take place in Mexico in April 2014. Partner countries as well as providers of development assistance are highly encouraged to compare their situation with the situations examined, to single out similarities and disparities, and to communicate these to the Building Block.

In particular, the Stock-take Report aims to

- highlight the progress against the time-bound and other commitments in §25 of the BPd
- highlight emerging trends and practices,
- identify promising ways and obstacles for boosting further progress, and
- formulate recommendations for the Global Partnership and the international effectiveness community.

The report consists of the following three parts:

1. Managing Diversity and Reducing Fragmentation at the Partner Country Level:  
Developments and Lessons from Bangladesh and Rwanda
2. Proliferation and Coordination of Multilateral Aid
3. The Issue of Under-aided Countries

# 1 Managing Diversity and Reducing Fragmentation at the Partner Country Level: Developments and Lessons from Bangladesh and Rwanda

## 1.1 Introduction

International development cooperation is characterised by a diversification of goals and approaches, and an increasing number of actor constellations. Over the past few decades, the number of countries and other actors providing external assistance to developing countries has increased substantially. While many countries, particularly in Africa, such as Mozambique or Zambia, were aided by only one or two donors during 1960–1964, this increased to almost every of the 37 donors in the OECD database by 1999.<sup>1</sup> The OECD estimated in 2011 that on average a DAC or major multilateral donor was present in 71 out of 152 ODA-eligible countries (73 for DAC countries and 69 for multilateral agencies), whereas from the partner country perspective, the average number of donors present in each country was 21 (11 DAC countries and 10 multilateral agencies).<sup>2</sup>

While benefits from receiving aid through diverse sources and actors with different comparative advantages and backgrounds are evident—every market profits from competition as it increases the potential for mutual learning, innovation and competitive selection among the different providers of development assistance and decreases the dependency of partner countries on few donors—many low-income countries suffer from aid fragmentation. They are faced with a high number of visiting donor missions, reports to be written, projects to be implemented, etc. Transaction costs increase substantially not only for the partner countries, but also for the providers of development assistance which have to manage a larger number of projects and funds per country and/or sector. Besides increased transaction costs, the likelihood that sectors and regions are neglected or oversaturated increases. Uncoordinated aid impedes alleviating poverty in the most efficient and effective way.

The problem of in-country aid fragmentation stands at the core of the aid effectiveness agenda and has been addressed in a variety of ways. For example, the European Union's (EU) Code of Conduct on Complementarity and Division of Labour (2007), is a voluntary code for a better division of labour between the EU donors in developing countries.<sup>3</sup> It has been used as reference not only by EU donors but also by partner countries that were willing to rationalise aid in their countries (see also the case of Rwanda described in section 1.3).

In §25a, the Busan Partnership document defines the goal to “make, by 2013, greater use of country-led coordination arrangements including division of labour, as well as programme-based approaches, joint programming and delegated co-operation.” As stated in the Building Block on “Managing Diversity and Reducing Fragmentation” in Busan in November 2011, “It is clear that there is a need to manage diversity and fragmentation to enhance the effectiveness and impact of aid.” There is a need for country compacts that “embrace the benefits of broader partnerships while reducing fragmentation and proliferation and enhancing complementarity and coherence of development co-operation at the

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<sup>1</sup> Djankov et al. 2009, p. 219

<sup>2</sup> OECD 2011, pp. 4-5. The data is from 2009.

<sup>3</sup> The Code has formulated eleven principles which aim at reducing the administrative formalities, using funds where they are most needed, pooling aid, and sharing the work to deliver more, better and faster aid.

partner country and international levels” and to “strengthen partner countries in their management of the increasing diversity of external support while actively involving all relevant domestic stakeholders”. However, the question is how. No single size fits all, but there is a menu of options available to choose from such as joint programming, division of labour, joint strategies to fulfil common objectives, sector working groups to enhance dialogue, and delegated cooperation. All these must be owned and driven by the partner country.”<sup>4</sup> Therefore, implementing the call for greater aid management needs to be done in a “global light and country heavy” way, meaning that each country has to find its own, country-adjusted way to better handle the plurality of aid sources and types.

The OECD defines aid fragmentation as the number of donors per country. Fragmentation becomes particularly problematic when its second indicator—the number of donors that cumulatively provide the last 10% of country programmable aid (CPA) to a partner country, i.e., the number of insignificant aid relations—is high as well.<sup>5</sup> From a partner country’s point of view, it is the aim to maximize the number of significant donor relations and minimize the number of non-significant relations. The respective fragmentation ratio, which measures the number of non-significant donors compared to the overall number of donors, needs to be reduced. “The lower the fragmentation ratio, the less fragmented are the donors’ aid programmes in that country.”<sup>6</sup>

Using this methodology, the OECD calculated that the global fragmentation ratio in 2011—based on 2009 data from the OECD/DAC—was 40%, “meaning that two out of every five donor-partner country relations are non-significant”. On the other hand, the average concentration ratio (i.e., the number of donors’ significant aid relations compared to all of its aid relations)<sup>7</sup> for DAC countries was 55% in 2009 and 60% for all donors.<sup>8</sup> Opportunities for a reduction of fragmentation have been identified in 44 countries that have had “12 or more non-significant aid relations and an average fragmentation ratio of 55%, meaning over half of all donor relationships in that country are non-significant”.<sup>9</sup> (OECD 2011b, 7; Vollmer, 2013: 8-9).

Besides tackling the negative impacts of fragmentation by reducing the fragmentation ratio within a partner country, partner countries and their development partners (DPs) are in many cases trying to better manage the diversity of aid as such. This can be achieved, for example, by harmonizing procedures among donors (e.g. programming cycles, procurement and disbursement procedures, choice of national instead of parallel project implementation units, donors’ sharing of future aid flow data, etc.) and by aligning them to country systems, conducting joint missions and analysis, donor mapping (ideally supported by an Aid Information Management System), donor performance assessments, establishing sector working groups, pooling donor contributions, and agreeing on a division of labour among providers of development assistance in alignment with national development strategies. The results of these actions are not necessarily reflected in a reduced fragmentation ratio, but it is expected that for the partner country, transaction costs of a multitude of aid sources are reduced this way as well. One effort to better coordinate aid has been provided by the EU Joint Programming initiative, an EU driven approach which aims at a better coordination of EU assistance in selected partner countries (see box “Excursus: EU Joint Programming”). Ideally, this initiative is

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<sup>4</sup> Building Block 2011:3

<sup>5</sup> OECD 2011d, Annex B

<sup>6</sup> OECD 2011d, pp. 5–6

<sup>7</sup> For a definition of fragmentation and concentration ratio, see Annex 1.1.

<sup>8</sup> OECD 2011d, pp. 7, 9

<sup>9</sup> OECD 2011d, p. 7

integrated into country-led coordination arrangements that potentially include all development partners present in the respective partner country.

***Excursus: EU Joint Programming***

As part of its efforts to increase the effectiveness of its development assistance, the EU launched its Joint Programming initiative in 2011 to increase the strategic focus, leverage and complementarity of EU assistance. Joint Programming comprises: (i) the synchronization of EU aid with the partner country programming cycle, (ii) joint analysis, and (iii) the elaboration of a joint response strategy including agreements on division of labour. Ultimately, Joint Programming should result in rationalized sector allocations of the Commission and the Member States with binding effect for the medium term. In contrast, joint programmes of EU members are not necessarily envisaged. Since early 2012 Joint Programming has been piloted in 7 partner countries, and has now been extended to another 30 countries. Joint Programming should be closely coordinated with partner country authorities. In practice, partner countries report that they have been informed and sometimes consulted.

Joint programming is still in its early stages. So far no finalized collective allocation tables have been prepared and the full benefits of Joint Programming—besides more transparency and the elaboration of common strategic frameworks—are not tangible, while at the same time transaction costs have already become high. However, there is reason for an optimistic assessment: EU members decided to adopt the initiative in many countries and adjusted their programming guidelines. Encouraging is also the demonstrated political will by many EU donors and the Commission, which often by its strengthened coordination mandate (following the Lisbon Treaty) is the engine behind country level processes.

Important challenges remain. Partner countries fear that strong coordination by providers of development assistance may limit their influence over allocation decisions and could ultimately result in loss of funds. Sector concentration and re-alignment has proven a difficult and lengthy process for every donor involved (only 3 sectors allowed). Similarly, the synchronization with the partner country programming cycle is difficult, leading to prolonged time horizons. A particular challenge is to maintain the commitment over time as political priorities of member states may shift, e.g., following a change in administration.

In this part of the stock-take report, Bangladesh is introduced as a country case and an interesting example to study how countries address the problem of fragmentation and try to better manage the diversity of aid. In section 1.3, the aid management situation in Bangladesh is compared with the one in Rwanda, a country that is considered a model in its handling of aid effectiveness and in particular of its aid diversity management.

According to data provided by the OECD on aid fragmentation in 2011 (see Table 1 and Annex 1.2), Bangladesh is aided by a great number of donors: 34 in 2011, 18 of which were bilateral and 16 multilateral, with a CPA share of 54.6% and 45.4% respectively.

**Table 1: Aid fragmentation 2011 at a Glance (for partner country members of the Building Block)**

Country	Net ODA received per capita 2011 (USD) (WB)	number of donors (DAC, 2011)	of which very minor donors	Fragmentation Ratio (%) (DAC, 2011)	bilateral donors			multilateral donors		
					no.	% of ODA	share of CPA (%)	no.	% of ODA	share of CPA (%)
Bangladesh	10	34	8	24	18	52.9	58	16	47.1	55
Cameroon	29	29	17	59	15	51.7	60	14	48.3	47
Honduras	80	26	15	58	12	46.2	66	14	53.8	23
Madagascar	20	27	5	19	13	48.1	55	14	51.9	49
Malawi	52	28	10	36	13	46.4	58	15	53.6	49
Moldova	132	27	12	44	13	48.1	72	14	51.9	21
Peru	20	26	14	54	17	65.4	62	9	34.6	94
Rwanda	113	30	13	43	17	56.7	60	13	43.3	45
Tuvalu	4323	8	0	0	3	37.5	70	5	62.5	57
Uganda	45	35	14	40	17	48.6	58	18	51.4	59
Zambia	77	30	12	40	14	46.7	68	16	53.3	64

Source: OECD 2013a, b, c

The aim of this in-depth analysis is to assess which efforts have been undertaken in Bangladesh to reduce fragmentation / better manage aid, and what lessons can be learned. To this end, this section is based on a desk review that looked at the fragmentation of aid in Bangladesh based on quantitative data provided by the OECD, triangulated with relevant secondary literature, twelve interviews and three focus group discussions conducted between August 27 and September 4, 2013 in Dhaka (the list of interviews is in Annex 4). The interviews and focus group discussions were semi-structured and were conducted with government officials, bilateral and multilateral donors, and academic representatives. The interviews took the quantitative fragmentation analysis of Bangladesh as the point for departure and focused on questions regarding attempts in Bangladesh to tackle the proliferation of donors and fragmentation of development assistance by each donor and the Bangladesh aid system. Field research coincided with the Asia Workshop on the Global Partnership for Effective Development Cooperation, August 25-27, 2013, which was used to observe interactions between the Economic Relations Division (ERD) of the Ministry of Finance and donor representatives.

Information on Rwanda was gathered from OECD data, secondary literature, and telephone interviews conducted with key persons responsible for aid effectiveness in the government of Rwanda.

The rest of Part 1 is structured as follows: section 1.2 assesses the role of aid in Bangladesh and its degree of fragmentation followed by a description of the aid coordination structure that emerged in order to tackle fragmentation. Enabling factors and stumbling blocks for Bangladesh on its path from aid fragmentation to managing diversity are illustrated at the end of this section. Section 1.3 compares

the situation in Bangladesh with Rwanda, a country that has been considered as a model for actively promoting aid coordination. The Bangladesh study and comparison with Rwanda then allow for some general conclusions and recommendations for countries facing aid fragmentation and trying to better manage aid diversity in their country.

## 1.2 The Case of Bangladesh

### 1.2.1 The Role of Aid in Bangladesh's Development Finance

Bangladesh is a low income country with a population of 154.7 million in 2012 and a GDP of USD 115.6 billion. According to the latest systematic analysis of aid management in Bangladesh, drafted by the Aid Effectiveness Unit in the Economic Relations Division (ERD) of the Ministry of Finance in 2011, foreign aid has averaged USD 1.3 billion annually over the past 40 years. For fiscal year (FY) 2009/10, the amount of foreign aid disbursed was USD 2.2 billion.

**Figure 1: Aid to Bangladesh at a Glance**

#### Bangladesh

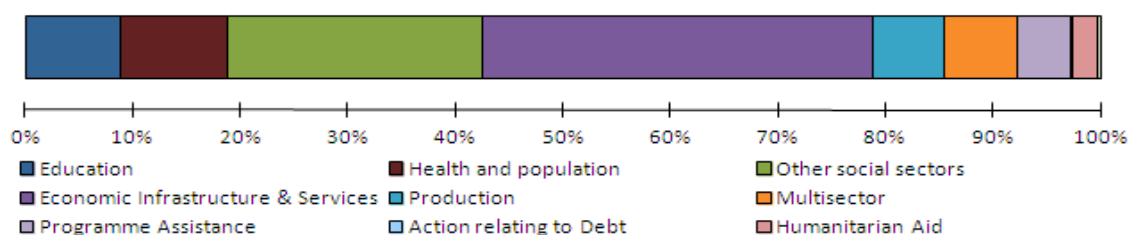
Receipts	2009	2010	2011
Net ODA (USD million)	1 226	1 415	1 498
Bilateral share (gross ODA)	48%	50%	55%
Net ODA / GNI	1.3%	1.3%	1.3%
Net Private flows (USD million)	182	- 82	369

For reference	2009	2010	2011
Population (million)	147.0	148.7	150.5
GNI per capita (Atlas USD)	640	700	770

Top Ten Donors of gross ODA (2010-11 average)		(USD m)
1	IDA	359
2	United Kingdom	299
3	AsDB Special Funds	287
4	EU Institutions	174
5	Japan	172
6	United States	147
7	Netherlands	78
8	Canada	74
9	Denmark	72
10	Germany	71

#### Bilateral ODA by Sector (2010-11)



Sources: OECD - DAC, World Bank; [www.oecd.org/dac/stats](http://www.oecd.org/dac/stats)

Foreign aid is important as it constitutes nearly 37% of the government's annual development budget. However, aid only accounted for roughly 2% of GNI (net ODA was 1.3% of GNI in 2011, see Figure 1). With IDA and the Asian Development Bank among the top five donors in 2010-2011, 70% of foreign aid has been provided as loans. With regard to aid modalities, Bangladesh can be described as a traditional

project-aid based country. The share of project aid grew steadily over the years, from 26% during 1971-1980<sup>10</sup> to 94% during 2000-2010. In FY 2009/10, project aid constituted 96% of total foreign aid.<sup>11</sup>

The declining share of aid dependency in Bangladesh is a consequence of healthy macroeconomic trends. Between the FY 2000 and the FY 2013, GDP and GNI per capita rose by 273% and 245% respectively, from USD 47.1 to 128.8 billion and from USD 377 to 923. As international reserves increased by 925% from USD 1.6 to 14.8 billion, the budget deficit/GDP decreased from 6.1 to 4.8%.

Analysts attribute these trends to Bangladesh's ongoing economic transformation away from a traditional agricultural based towards a service based economy that the GoB actively pursues by giving the private sector in the government's sixth five year plan (2010-2015) a pivotal role. With 77.2% of total investment undertaken by the private sector in Bangladesh, the sectoral share in GDP of services in the FY 2013 stands at 49.3%, followed by Industry (31.98%) and Agriculture (18.70%).<sup>12</sup>

As the economy grew by 6% annually since 2000, fuelled by export-led growth of ready-made garments such as knit wear and hosiery (75% of export revenue) to the United States (23% of total), Germany, United Kingdom, France, Japan and India,<sup>13</sup> aid dependency has been replaced by a new dependency, namely "trade-dependency". This new dependency affects the aid harmonisation agenda in various ways that are explored at section 1.2.4.

## 1.2.2 Aid Fragmentation in Bangladesh

In 2009, Bangladesh received USD 1.6 billion in CPA and was characterized by: (a) an above-average presence of donors (29 donors, including 16 DAC countries and 13 multilateral agencies) versus the global average (21 donors, comprised of 11 DAC countries and 10 multilateral agencies) and 26 donors per country in Asia; and (b) by an above-average presence of DAC donors (16 vs. the Asian average of 14.4).<sup>14</sup> The latest OECD/DAC data reveals that the number of donors in Bangladesh and reported to OECD/DAC has increased to 34 in 2011 and 36 in 2012 (see Table 1 and Annex 1.2).<sup>15</sup> New, "emerging" donors have also been providing development assistance to Bangladesh.

During FY 2012-13, Bangladesh received a record USD 2.78 billion in foreign assistance. The World Bank increased its disbursements to more than USD 900 million (from USD 409.93 million in 2011-2012). Other important development partners in 2012/13 were the Asian Development Bank (USD 670.45 million), Japan (USD 360.43 million) and the European Union (USD 68.07 million). The "emerging" donors of China and India also contributed significant amounts (USD 175.69 million and USD 179.48 million, respectively).<sup>16</sup>

The ratio of (financially) significant to non-significant aid relations in Bangladesh and the respective fragmentation ratio have fluctuated. In 2008, of the 32 OECD/DAC aid relations, 16 were considered

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<sup>10</sup> Other aid was food aid (32%) and commodity aid (42%).

<sup>11</sup> GoB 2011

<sup>12</sup> Ibrahim 2013

<sup>13</sup> Trade Economics 2013

<sup>14</sup> OECD 2011

<sup>15</sup> According to Nadoll, 44 OECD/DAC donors were active in Bangladesh in 2011 (quoted in EU Heads of Mission in Bangladesh 2012).

<sup>16</sup> New Age Online Edition 2013



non-significant, resulting in a fragmentation ratio of 50%.<sup>17</sup> From 2009-2011, the fragmentation ratio was only 24-28%, while in 2012 it rose again to 50% (18 of a total of 36 OECD/DAC relations). The share of non-significant donors has been subject to frequent changes. Statistics show that there are a number of (particularly multilateral) donors whose aid volumes are at the edge of being non-significant and any change in their contributions is quickly reflected in a changed share of non-significant aid relations (see Annex 1.2).

According to the ERD, the number of active donors is increasing in many sectors, while the amount disbursed to these sectors is decreasing. Furthermore, the ERD notes that the average number of small donor contributions (i.e., the number of donors that add up to only 10% of aid in a sector) is increasing as well. Bangladesh's main aid modality is classical project aid, and not the potentially more inherently harmonized aid modalities, such as budget support. Bangladesh therefore faces high transaction costs associated with aid management.

It becomes obvious that, at least in the case of Bangladesh, the fragmentation ratio cannot be used to automatically judge whether aid diversity has been well organised and transaction costs are high or low in a country. While the country has had low fragmentation ratios from 2009-2011, this is not a stable trend, and the government feels the burden of high transaction costs and aims at reducing these.

So it remains to be examined: what exactly has the government of Bangladesh done in order to reduce transaction costs? What has been achieved in Bangladesh with regard to better management of aid diversity? What remains to be done?

### 1.2.3 Aid Coordination in Bangladesh

Since 2002, the Government of Bangladesh (GoB) has been organising the high level “**Bangladesh Development Forum**” (BDF), which takes place in Dhaka every two years. The objective of the forum is to share the government's strategies, reforms and priorities with development partners, civil society and the private sector and discuss how to work together to realise the plans. The GoB discusses its long-term plan to reach middle income status, plans for implementing National Development Strategies, and its proposed reforms and delivery priorities. Usually improving development effectiveness and programme delivery are the core issues for discussion at this forum.

In 2006, Bangladesh introduced a Harmonisation Action Plan led by the ERD of the Ministry of Finance (CDDE: 1). Since then, the government has been seeking to continuously improve coordination between the GoB and its development partners. Three coordination mechanisms between the GoB and DPs have been established: (i) the **Local Consultative Group (LCG) Plenary**, where GoB and DPs meet regularly at senior level, (ii) the Aid Effectiveness Unit (AEU) of the **ERD**, whose function it is to assess, mobilize and coordinate the allocation of foreign assistance, and (iii) 18 **LCG Working Groups** which facilitate in-depth dialogue and collaboration with respect to selected sectors and thematic areas. As NGOs play an important role in Bangladesh, civil society representatives have been regularly invited to join the discussions with plans for being increasingly integrated in the future.

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<sup>17</sup> OECD 2013a

The development partners are organized in a **LCG Development Partner Plenary (DPP)**, with a **LCG Executive Committee (LCG ExCom)** serving as the executive organ of the DPP. In the LCG ExCom, there are three permanent members (UN Resident Coordinator as the Chair, ADB and World Bank), and four annually elected bilateral donors (currently Canada, Germany, Switzerland and USAID). It is the function of LCG ExCom to liaise between the DPP and the GoB through the ERD Secretary, and to convey DP decisions and concerns on development issues to the GoB.<sup>18</sup>

In June 2010, the GoB and 18 DPs signed a **Joint Cooperation Strategy (JCS)** for the period 2010-2015. The JCS “sets standards for the effective management of development assistance through joint programming, use of Government administrative and financial systems, joint appraisal and analytical work for co-financed programmes, joint dialogue and joint review of progress in implementing programmes.”<sup>19</sup>

In order to foster the harmonisation agenda in Bangladesh, the **Joint Action Plan 2010/2011 (Annex to the Joint Cooperation Strategy)** stipulates that the ERD, supported by the DPs, would work on reducing aid fragmentation. Milestones for a **rationalisation of sector support** are seen in the establishment of donor mapping, its regular update, an aid tracking system, and the drafting of a concept note on the division of labour. New programme-based approaches are to be established in the health and education sectors and high level discussions held on new partnership arrangements in selected countries.<sup>20</sup> The Action Plan also foresees the formulation of a jointly agreed Development Results Framework that sets measurable annual targets and indicators to be used in annual reviews of performance with development partners, and briefly introduces key issues and suggestions for further action or analysis. The final document will reflect the views of all LCG development partners and could be used as input for further intergovernmental processes, for example, during consultations on a new Aid Policy for Bangladesh, planned for 2015, or discussions with line ministries on fragmentation and rationalisation in their specific sectors. Recently, joint project reviews have already been taking place in accordance with the goals set by the Joint Cooperation Strategy.

At the sector level, the GoB has been increasing efficiency by fostering the use of **joint analysis and joint monitoring as well as joint implementation**, and by ensuring **regular and meaningful communication** with its partners on how it manages its development processes and the need to align with sector strategies. Sectors in which there is a clearly designated ministerial authority tend to be better coordinated than sectors with multiple ministerial authorities, sometimes with conflicting mandates. Good sector practices often cited in Bangladesh are in food security (agriculture), health and education. In these sectors, government ministries lead coordination to improve alignment and buy-in for implementation of government sector strategies and plans. Cross-cutting sectors such as governance or support for civil society tend to face greater coordination challenges partly because they involve mandates across multiple ministries. Additionally, sectors where coordination is seen as working well are those where the GoB and donors ensured sufficient human resources to elaborate a common vision and coordinate.

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<sup>18</sup> LCG Bangladesh 2013c

<sup>19</sup> GoB 2010a, Foreword

<sup>20</sup> GoB 2010a, Annex 1

According to the ERD,<sup>21</sup> with regard to donor harmonisation and the rationalisation of sector support, progress could be achieved but needs to be pursued further in terms of:

- an increased number of joint arrangements in the form of sector-wide approaches and partnerships under multi-donor trust funds,
- the use of common procedures in planning, financial management and procurement in the case of partnerships under joint arrangements, and
- an increase in the sector and cross-sector division of labour among DPs.

With regard to the management of aid diversity, the World Bank's Aid Effectiveness Review notes that both development partners and the Government are making considerable efforts to use common arrangements, particularly in the areas of accounting, pooled funding, procurement procedures, performance-based financing, and common audit and reporting requirements. Good experiences have been achieved with pooled funding arrangements in UNDP implemented projects and programmes. Furthermore, some DPs have initiated a dialogue with the GoB on performance-based budget support.

Other ongoing and planned initiatives include:

- the introduction of an **aid information management system**,
- the formulation of a **national aid policy**,
- a **holistic Capacity Development Strategy** at country level and regional **knowledge hub** at Asia-Pacific Development Effectiveness Forum
- working on an **inclusive partnership mechanism** (GoB, DP, CSOs, Academia, Parliamentarians etc.), and
- the strengthening of existing **collective dialogue mechanisms**.

Overall, the **LCG** has been an **important tool for collaboration**. The **regular communication between the GoB and DPs** at different levels seems to be crucial in this regard. However, the ERD sees a lot of **room for improvement**. There is a general feeling that the LCG mechanism has not yet reached its full potential as an effective coordination tool, especially with regard to development coordination at the sector level.

The LCG has initiated many efforts to better manage aid diversity by harmonizing procedures and adjusting them to country systems. Next, the GoB seeks to promote actions that enhance sector and cross-sector division of labour.

According to the ERD, the development partner structure remains heterogeneous. In order to enhance the situation, the GoB and its DPs want to further rationalize support to sectors and thematic areas, and to limit the number of development partners that are 'active' in a sector or thematic area to an appropriate level, depending on the needs and capacity of the sector, as well as the comparative advantages of individual development partners.

To address the fragmentation problem, the GoB will:

- promote more joint planning and coordination of development partner activities,
- create more common programmes and approaches,
- encourage each development partner to identify its comparative advantage, and

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<sup>21</sup> GoB 2011b, p. 11

- encourage all donors to report accurately on their assistance to Bangladesh.

#### 1.2.4 Enabling Factors and Stumbling Blocks for Reducing Fragmentation and Managing Diversity

Bangladesh seems to be well on its way to creating well-functioning aid diversity management. From the interviews, it appeared that the following factors contributed to creating an enabling environment for greater harmonisation of foreign aid in Bangladesh.

##### Enabling Environment

The creation of a **vibrant relationship between the government and development partners** within the Bangladesh Development Forum has clearly supported aid management (see Annex 1.3).<sup>22</sup> The GoB puts great emphasis on a regular and collective dialogue with its DPs under the LCG, including the Bangladesh Development Forum. This is one of the major pillars and prerequisites for well-functioning aid management in Bangladesh.

**GoB ownership is strong.** Beyond its own initiatives, the GoB welcomes harmonisation and simplification efforts by different groups of DPs, such as the EU joint programming initiative. It emphasizes, however, that such efforts must be based on the national development strategy and ultimately fully aligned with the national programming cycle and relevant country systems. Otherwise, such initiatives would undermine true country ownership and just add layers of bureaucracy instead of being truly effective.

On the institutional level, interviewees recognized that successes in aid harmonisation can be largely attributed to the important role played by the **Economic Relations Division as the aid management nodal point**. The ERD within the Ministry of Finance of the GoB was aided by several DPs such as DFID and the UNDP to create an effective partnership with DPs based on mutual commitment, trust, respect and confidence for the implementation of a post-Paris Declaration formulated Bangladesh Harmonisation Action Plan in 2006.<sup>23</sup>

It was a sensible move to assign the ERD the role of a “nodal agency”<sup>24</sup> for the government to coordinate with DPs and assess, mobilize and coordinate the allocation of foreign assistance along all elements of the aid management cycle, from identification, formulation, negotiation, and implementation to monitoring and evaluation. While this “enabling environment” has helped Bangladesh to move towards greater aid harmonisation, interviewees also agreed that the ERD could be strengthened in order to better perform its assessment and coordination task.

Beyond the ERD, another important element for a functioning aid management at the government level is good communication between the different ministries and government agencies, and the division of labour among them, regulated by the **Rules of Business**.<sup>25</sup> They describe the responsibilities of other key government institutions that play a role at different stages of aid management cycle. The Planning Commission is responsible for the formulation of a macroeconomic framework, including the

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<sup>22</sup> LCG Bangladesh 2013a

<sup>23</sup> GoB 2006, 2011

<sup>24</sup> Nadoll 2012

<sup>25</sup> Allocation of Business Among Different Ministries and Divisions: Schedule 1 of the Rules of Business 1996 (Revised up to February 2009), Cabinet Division, Government of Bangladesh

preparation of the Five Year Plan (FYP), the national perspective plan, and development policies. The Ministry of Finance—together with other relevant ministries, divisions, and institutions—is responsible for the preparation of the medium-term expenditure framework and the annual budget for implementing development programmes (public investments). The line ministries and divisions are responsible for the preparation and implementation of sectoral public investment programmes and projects, in cooperation with the Ministry of Planning and ERD (in case of ODA involvement). The Bangladesh Bank acts as the banker to the Government, while the Ministry of Foreign Affairs serves as its diplomatic agency.<sup>26</sup>

Other enabling factors reaching beyond the local coordination mechanisms but also positively influencing the aid situation to different degrees include:

1. ***From aid to trade dependency:*** On the one hand, while aid is considered an important source for achieving the goals set out in the sixth five year plan, Bangladesh is not an aid-dependent country any more. One could assume that the limited aid dependency of Bangladesh could be considered beneficial for aid coordination and the negotiating power needed to increase the impact of this relatively small but still very important source of development finance, especially compared to countries with greater aid dependency, such as Mozambique, where donors might have greater incentives to intervene in public management matters<sup>27</sup> and the recipient country might have weaker negotiating power. However, while less aid dependency might strengthen Bangladesh's position for effective aid negotiation, the advantage is tempered by Bangladesh's dependence on trade. The easiest option to reduce fragmentation of aid—by asking insignificant donors to leave—is hardly a real one if the respective donor country is at the same time an important trading partner. Despite constraints, less aid dependency could help Bangladesh to take bold steps towards better aid management for better development results.
2. ***Little other interests besides development objectives:*** In comparison to other countries, particularly in Africa, DPs in Bangladesh are less driven by factors other than development interests in their aid allocation decisions. While geo-strategically, Bangladesh is important as it acts as a gateway between Southwest and Southeast Asia, which is particularly important for Asian donors such as Japan, commercial interests are reduced to trading within the garment sector. As Bangladesh lacks greater reserves in natural resources besides natural gas, investments, e.g. in infrastructure projects, are more clearly directed towards development goals rather than individual donor country interests (as would often be the case in countries with greater reserves in coal, gas, oil or rare minerals).<sup>28</sup>
3. ***Political unrest severe, but predicted to be only temporary:*** In 2013, Bangladesh faced the “worst political violence the country has endured in the 42 years [since independence].”<sup>29</sup> While the

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<sup>26</sup> GoB 2011, p. 10

<sup>27</sup> UNDP 2011; Vollmer 2013

<sup>28</sup> See Vollmer 2013

<sup>29</sup> The Economist 2013a. The unrest was sparked by the “International Crimes Tribunal” that is trying men accused of atrocities in the nine-month liberation war with Pakistan in 1971. On February 28, 2013, the court sentenced Delwar Hossain Sayeedi, one of the leaders of Jamaat-e-Islami, Bangladesh's biggest Islamic party, to death by hanging. This sparked protest by more than 10,000 Jamaat supporters who attacked police stations and government offices in Dhaka.

political unrest is severe and created global headlines,<sup>30</sup> the next general elections, planned for early 2014, are expected to restore political stability to Bangladesh. The two main political parties, the Awami League and the Bangladesh Nationalist Party, share an understanding that the Government's current 5 year programming cycle (2010-2015) will be run by the next Government, and the next cycle will be for another 5 years. While changes to the Annual Development Programme are foreseen, the expected continuation of the 5-year plan is a form of predictability and stability that African countries are often lacking,<sup>31</sup> and even previous government changes in Bangladesh were more disruptive.<sup>32</sup>

While this “enabling environment” has helped Bangladesh to move towards greater aid harmonisation, interviewees also agreed that the following stumbling blocks hinder greater aid harmonisation under ERD leadership.

### Stumbling blocks

1. **Too much project aid:** Bangladesh proved that with project aid as its main aid modality—in combination with selective sector-wide approaches in primary education, health, the nutrition and population sector, disaster management and a few others<sup>33</sup>—a very large level of aid coordination and harmonisation is possible.<sup>34</sup> However, the ERD continues to suffer under the current situation because in some sectors, such as education, up to 95 projects have to be managed and coordinated. Even if such collective action is managed the most efficient and effective way, collective action problems—such as duplication of efforts, overlaps and transaction costs—will remain a constant by-product. As much of this project aid remains earmarked and continues to be non-aligned to national development priorities,<sup>35</sup> space for action within the current budget envelope is limited. Interviewees agreed that due to good donor vis-à-vis ERD relations within the Bangladesh Development Forum and the LCG mechanism, a lot of pragmatic and fluid aid coordination takes place (e.g., sector exits and entries are generally well communicated through the LCG system). Meanwhile, more joint analysis, greater use of lead donor arrangements, delegated cooperation, silent partnership and more inherently harmonised PBAs would prove useful to further streamline the aid delivery. To this end, interviewees welcomed that the JCS Action Plan provides, under the heading Harmonisation, two more work-streams for 2012-14: namely the development of an aid information management system (AIMS)<sup>36</sup> and further promotion of sector

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<sup>30</sup> The Economist (2013a, b): “Political violence in Bangladesh: In hot blood” (May 11, 2013), “Unrest in Bangladesh: A nation divided” (March 9, 2013)

<sup>31</sup> See Furness and Vollmer 2013

<sup>32</sup> EU Heads of Mission in Bangladesh 2012

<sup>33</sup> GoB 2011, p. 21. For example: Primary Education Development Programme, Nutrition and Population Sector Programme, Comprehensive Disaster Management Programme, Strengthening Bangladesh Police through Reform Programme; Multi-donor Programme for Aid Capacity Building

<sup>34</sup> The government asserts however that programmes could be better coordinated and streamlined, with many donors still operating separately under a variety of funding mechanisms (GoB, 2011: 21).

<sup>35</sup> GoB 2011, p. 1; EU Heads of Mission 2012. Regarding European donors, while most country policies of the EU and Member States overlap with the 6<sup>th</sup> five year plan, only a few are really aligned with it. Additionally, while country policies of bilateral donors may overlap with the government plan, the implementation of thematic and sectoral programmes may diverge from the government's timeline, hindering synchronisation (EU Heads of Mission, 2012).

<sup>36</sup> Software development work has been started and it is planned to release beta version of AIMS with limited access by end of 2013. The AIMS application of Bangladesh will be able to identify duplication of donor efforts, orphaned and saturated sectors and predicted donations for upcoming years if DPs provide timely data into the system. The proposed application design would

programme-based approaches for water and sanitation, land utilization, information and communication technologies as well as health and education.<sup>37</sup>

2. **Lacking donor support:** Development agencies are divided among themselves on the scale of their programme, their enthusiasm for the international aid effectiveness agenda and the extent to which authority has been decentralized to country offices. This situation creates coordination challenges for the Government. Many development partners continue to spread their aid budget over a large number of sectors, resulting in considerable aid fragmentation. Alignment with country systems and procedures remains limited.
3. **Weak Public Financial Management Systems:** Bangladesh's public financial management system needs to be improved in order to solve project execution problems. Aid utilization in Bangladesh is seriously hampered due to delays in tendering, the appointing of consultants, contract approval times and the recruitment of project staff (due to red tape and other reasons). Annual disbursements of project aid in relation to the "pipeline" —the total undisbursed amount including allocations for future years—declined from 25.8% in FY09/10 to 18% in FY 11/12. The start of project implementation can take up to two years according to interviews and grey literature. The ERD has acknowledged the problem and proposed several ways to overcome it including setting up a technical assistance project to develop and introduce project readiness filters to reduce delays in project start-up, and the introduction of a periodic tripartite portfolio review (meetings between DPs and implementing agencies on a quarterly, biannual or annual basis).<sup>38</sup> These steps would be important enabling factors for a smoother management of aid diversity.
4. **Frequent changes in staff:** Staff changes are rampant in Bangladesh's administrative system, meaning that institutional memory and capacity-build-up is lost and needs to be renewed. This weakens the government's ability to better manage foreign aid.

### 1.3 Comparing the Aid Diversity Management System of Bangladesh with Rwanda

Rwanda has been considered as a frontrunner with regard to the implementation of aid effectiveness issues and particularly regarding the improvement of its aid diversity management and efforts to reduce aid fragmentation.

It is therefore worthwhile to compare: where do Bangladesh and Rwanda resemble each other in aid management efforts and country developments? Where can one country learn from the other?

Like Bangladesh, Rwanda has been receiving aid from over 30 development partners. With a population of just over 11 million people (Bangladesh: over 150 million), annual aid disbursements have averaged about USD 1 billion since 2009 (Bangladesh: up to USD 2 billion). Aid constituted just under half of government resources in 2013 and is therefore an important financing source for Rwanda.

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support presentation of geographical distribution of aid in tabular as well as graphical (through chart) format. In future a GIS module could be incorporated to visualize geographic information into maps.

<sup>37</sup> GoB 2011, p. 21

<sup>38</sup> Khan 2012; see also GoB 2010b

Consequently, Rwanda has made considerable investments in optimising the management of its different sources of aid and aligning them to national strategies.

In 2006, Rwanda introduced an **“Aid Policy”** which applied the Paris Declaration to the specific context of Rwanda. This policy has been serving as the main reference point for country-led donor coordination and placing clear emphasis on the alignment of aid with government priorities and the use of country systems.

In 2008, an internal study that included a **donor mapping** noted that donors were unevenly distributed across sectors, overcrowding some sectors while paying less attention to others. The study noted that the situation of a fragmented landscape was associated with large transaction costs. The donor mapping was conducted with the help of an Aid Information Management System (“DAD”) which Rwanda established in 2005/2006.

As a consequence, in 2010 Rwanda initiated a **Division of Labour process** based on the EU Code of Conduct on Complementarity and the Division of Labour (DoL) with a clear goal to rationalize and redistribute sector aid. Rwanda conducted an assessment of donors’ comparative advantages which formed the basis for the first phase of the DoL: in a transition period from 2010 to 2012, most DPs started to align their programming cycle to sectors as agreed upon in the DoL process.<sup>39</sup>

Geared to the 2010 EU Code of Conduct and Complementarity and Division of Labour, important elements of the DoL process and on sector enrolment of the DPs were:

- a maximum of 3 sectors per DP
- the increased use of delegated cooperation/silent partnership agreements
- a redistribution of aid across sectors (= neutral impact on total aid volume)<sup>40</sup>

In 2013, based on the new phase of its Economic Development and Poverty Reduction Strategy (EDPRS 2013-2018), the government of Rwanda (GoR) has initiated a revision process for the initial 2010 DoL decision in order to adjust the DoL to changing national priorities but also to dynamics in the donor landscape (such as withdrawal of donors and entries of new emerging donors), thus ensuring that DoL remains a flexible instrument.

With regard to **joint/harmonized programming**, a joint programming process started in 2012. In 2013, bilateral donors wrote a draft document. The government has asked multilateral donors to set up a similar process.

In this context, the government emphasizes a functioning system of **donor performance assessment**, where 'well-performing' donors are more influential. The GoR has initiated a number of approaches like a functioning data basis for development assistance, a joint performance assessment mechanism and a regular assessment measurement of donor performance (“Donor Performance Assessment Framework”). As a joint analytical work including both government and development partners, the joint governance assessment process was established in 2008.<sup>41</sup>

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<sup>39</sup> Südwind 2013, pp. 59-65

<sup>40</sup> GoR 2013

<sup>41</sup> Südwind 2013, pp. 59-65



With regard to aid **implementation**, the GoR has had a clear preference for budget support or at least pooling arrangements. Because Rwanda has relatively well performing institutions, it has received a significant share of aid in the form of budget funding (33% for the FY 2011/2012). The GoR has been encouraging donors to offer budget support by allowing budget donors to have a greater influence on sector policies. However, in 2012 the situation changed due to controversial debates on Rwanda's role in the Democratic Republic of the Congo (DRC). Many donors stopped the disbursement of budget aid. Rwanda experienced the susceptibility of budget aid to abrupt withdrawals due to political factors.<sup>42</sup> It therefore aims at pushing further Division of Labour efforts for non-budget support development cooperation (being aware that coordination is more complex than in the case of budget support).

A **clear communication structure** between the GoR and its development partners has been a key to a successful management of aid diversity in Rwanda. Government and development partners meet regularly through the **Rwanda Development Partners Coordination Group**. Furthermore, the GoR actively participates and sets the agenda at the '**Development Partner Retreats**' (**DPRs**) which are held annually and conduct a backward and forward-looking review of Economic Development and Poverty Reduction Strategy progress as well as focus on strategic planning to make development cooperation more effective.

At the sectoral level, Rwanda has established **Sector Working Groups (SWGs)** which bring together central and local government institutions, development partners, civil society and the private sector. The overall objective of the SWGs is to provide a forum for dialogue, ownership and accountability of the development agenda by all stakeholders at the sectoral level and to build synergies in policy formulation, implementation and regular reviews.

Government deploys **soft incentives** such as the participation in policy and strategy dialogue, especially for meaningful and well-performing partners, as well as sustained communication with its development partners. By constantly calling for better performance and effectiveness, the GoR has created a **competitive environment** in which donors have a reputational incentive to improve their own practices. This, in turn, gives a **greater level of authority to donor decision makers in country** with respect to their own headquarters.

The GoR has been successfully implementing its initiatives with a **disciplined and effective civil service**, which further contributes to an effective management of aid diversity. At the same time, Rwanda's government officials tend to **see donors as a partner they can turn to and call on for assistance**, another important prerequisite for an effective dialogue on aid and development.

In recent years, Rwanda's fragmentation ratio was around 40% (2011: 43%, 2010: 38%, 2009: 37%, 2008: 46%). The most recent data from OECD reveal a clear decrease of the ratio to 31% in 2012. As it takes time for donors to adjust aid flows to new agreements, and to organize entries and exists of engagements (ensure handing over processes/sustainability etc.), it is possible that the first effects of the Division of Labour efforts started in 2010 are now being reflected in the fragmentation ratio. It remains to be observed whether this lower fragmentation ratio remains around this level or can be reduced even further in the next years. Beyond the fragmentation ratio, the GoR and many development partners have been observing the positive impacts of the Division of Labour process, noting that:

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<sup>42</sup> Südwind 2013, pp. 59-65

- congestion has been decreasing in some previously over-crowded sectors (such as health)
- more time and attention has been invested on a sector focus, improving policy discussions
- the size of projects has been increasing due to reduced proliferation of small initiatives
- new partnerships have been developed or established among donors.<sup>43</sup>

The GoR has taken a strong lead in donor coordination and proven effective in improving the management of aid diversity, reducing fragmentation, and rationalising sector support. Based on a clear national aid policy and other strategies, it has demonstrated strong capacities to coordinate and lead efforts at the country level. In the area of programming, the GoR is an example for others. This is true especially because of the sectoral DoL approach. **Because of the clear pressure by the Government, it is difficult for development partners to withdraw from coordination and harmonisation activities.**<sup>44</sup>

In comparison to the developments achieved in Rwanda, where does Bangladesh stand?

In the past few years, **Bangladesh** has also been laying a strong focus on the regular communication between government and development partners and on the harmonisation of project implementation procedures. The GoB has so far concentrated less than Rwanda on concrete measures for Division of Labour —especially cross-sector, but often also sectoral—and on efforts to rationalise and redistribute aid. Meanwhile, steps such as donor mapping, comparative advantage assessments and so on are already being planned. As shown in the case of Rwanda, **strong leadership by the GoB will be necessary when it comes to concrete implementation of Division of Labour arrangements.** In the case of Bangladesh, the **LCG working groups might also be up-graded** in order to achieve more effective sector rationalisation results. Furthermore, Bangladesh might **take into account the challenges that Rwanda has been facing, too, with regard to Division of Labour**, namely:

- the difficulty to align decisions of local DP representatives in DoL processes with expectations from the DPs' headquarters
- the limited willingness and capacity of donors to enter into under-funded sectors
- the difficulty to maintain the same level of overall financing level when a shifting of DPs' engagements between sectors takes place.<sup>45</sup>

Furthermore, like Rwanda, the GoB might also want to **explore the possibility to increase the share of pooling arrangements** (e.g., pooled or basket funding, delegated cooperation, sector-wide approaches, sector and/or general budget support) as measures that reduce the negative effects of fragmentation by harmonising donor procedures and increasing partner ownership through the use of country systems.<sup>46</sup>

As noted by the World Bank, there have been good experiences with pooled funding arrangements in Bangladesh. Some development partners have entered into dialogue with GoB on performance-based budget support. However, the respective foundations for a well-functioning budget support in Bangladesh need to be established before its share can be increased (see recommendations below).

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<sup>43</sup> GoR 2013

<sup>44</sup> Südwind 2013, pp. 59-65

<sup>45</sup> GoR 2013

<sup>46</sup> Südwind 2013, pp. 59-65

## 1.4 Conclusions and Recommendations

The following general conclusions can be drawn from the Bangladesh case study and the comparison with Rwanda.

### Conclusions and Recommendations for Bangladesh

1. ***The LCG mechanism needs time to prosper.*** Bangladesh's post-Busan work should be complementary to the LCG structure that emerged in the post-Paris Declaration and post-Accra phase. Additional initiatives such as EU Joint programming should be complementary rather than additional in order to increase the robustness of the current lean aid management system in Bangladesh. Improved joint planning by the EU and its Member States aligning with the national development priorities will be beneficial to assist efforts to this end. Additionally, the LCG needs to become more inclusive. Currently, aid harmonisation remains primarily a traditional donor-government driven agenda. As Bangladesh moves towards a service-based industry and aims to reach middle income-status by 2021 (Vision 2021), private sector engagement and the greater involvement of the BRICS and CSOs in the LCG will be crucial to make aid truly catalytic and to increase regional integration.<sup>47</sup>
2. ***Move towards a government-led division of labour arrangement with donors.*** So far the GoB has made the strongest focus on the management of aid diversity in terms of improved communication between the government and DPs, and the harmonisation of donor procedures and their alignment with national systems. While these are important steps, stronger emphasis should now be made on sector rationalisation and cross-sector division of labour, using instruments such as donor mapping, comparative advantage assessments, etc. Strong leadership by the GoB will be crucial in this regard. In this context, the LCG working groups might be up-graded as well.
3. ***Promote joint financing mechanisms.*** Following the GoB review of aid policies and procedures in 2011, it is recommended to further explore co-financing mechanisms where possible, such as silent partnerships, programme-based arrangements and performance-based budget support. For the latter, the GoB must seriously address the current state of widespread corruption in Bangladesh—the country is ranked 144th out of 174 countries on Transparency International's Corruption Perceptions Index—which explains why most aid in Bangladesh is off-budget.
4. ***Focus on donor concentration.*** In terms of greater aid harmonisation, donors should aim at increasing their concentration in Bangladesh by using the year 2015 as a window of opportunity for greater synchronisation. The timing for greater alignment to the upcoming 7<sup>th</sup> five-year plan scheduled for 2015 will be particularly beneficial for three European DPs renewing their policy cycle in 2014, notably the European Commission, Germany and Sweden.

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<sup>47</sup> The greater integration of the 2252 officially listed NGOs in Bangladesh into aid coordination efforts remains a challenge in its own right (GoB 2013a).

## General Conclusions

Observations made in Bangladesh and other partner countries may allow for the following **general recommendations for countries that aim at changing fragmented aid into aid that is better managed**.

While a high degree of aid fragmentation is typically connected with high transaction costs, there are obviously clear advantages of a well-managed plurality of aid sources. Elements of good aid management such as aid management information systems, sector and donor mapping, sector rationalisation, clear agreements on division of labour, and donor predictability and transparency help partner countries to lower transaction costs and to better integrate aid in the implementation of their national development strategies and plans. Therefore a strong **focus on a well-defined aid diversity management system** should be a top priority for partner country governments.

Furthermore, reducing aid fragmentation and managing diversity is a joint responsibility of the government and its partners. Partner countries need to be in the lead and show strong **ownership**. Development partners should support them consistently, where needed, with a focus on capacity development for the management of foreign aid. Partner country-led processes should **include all relevant domestic stakeholders** (parliament, civil society and private sector) and international development partners that are active in the country.

The environment in which the different stakeholders act is also important. Partner country governments, together with donors, should **create an enabling environment for aid management**. This requires consistency of national development strategies, national development plans to be concrete and results based, and building sufficient capacity within the government for aid management. Donor alignment is essential in this regard as well.

**Donor coordination procedures** need to be linked to clearly defined results. Government and donors need to **focus on tangible outcomes and elements** (e.g., the increase and improvement of pooling arrangements and PBAs, agreement on the Division of Labour, filling of "funding gaps", etc.) and avoid focusing on input-related measures (number of meetings, etc.). Indicators should be formulated which measure achievements made with regard to better management of aid diversity at country level. Meanwhile, any aid management system that aims at streamlining the delivery of aid needs to be robust but flexible enough to manage the many changes and challenges that evolve in the context of a development programme.

Finally, while division of labour, for example, is important for reducing fragmentation and managing diversity, it takes time until the first results can be seen. **Patience** is needed by all parties involved. Donors are not able to retreat immediately from some sectors and enter others tomorrow. For example, the results of the Division of Labour or other coordination mechanisms as reflected in a reduced fragmentation ratio need to be observed over time.

Overall, it seems that partner countries as well as development partners and other stakeholders involved in development aid can learn a lot from each other with regard to experiences made with the management of aid diversity and possible attempts to reduce fragmentation and to rationalise aid. Examining concrete country experiences in the form of case studies and making them available to the international community may be a good start. Partner countries willing to enhance their aid management situation may draw important conclusions from lessons learned in other countries by being able to easily access relevant documents or to talk directly with other partner countries in fora or

workshops. There needs to be discussion on the most effective way to foster global learning and to collect and communicate experiences on aid diversity management tools and approaches.

## 2 Proliferation and Coordination of Multilateral Aid

### 2.1 Introduction

Excessive proliferation has long been criticized as impairing the effectiveness of development assistance. Despite discussions and international agreements, e.g., the Paris Declaration on Aid Effectiveness, the proliferation of aid sources, channels and donors has grown significantly over the last decade. Besides “traditional” DAC donors, a number of countries and private actors have entered the field of development cooperation, providing a broader set of resources and experiences, but this diversity can be difficult for partner countries.

Multilateral assistance has steadily increased over the past 20 years. In 2011, it reached almost USD 58 billion. It is delivered by more than 200 major organisations, funds and trust funds.<sup>48</sup> At the partner country level, multilateral assistance has generally been more concentrated than bilateral aid, but fragmentation has slightly increased since 2008. This trend is exacerbated when taking the non-core funding of multilateral organisations into account, i.e., earmarked bilateral funds channelled through the multilateral aid system by means of trust funds, vertical funds, and so on.<sup>49</sup>

Given this situation, the international community agreed at the High Level Forum on Aid Effectiveness in Busan (2011)—after prior agreements in Paris and Accra—to far-reaching commitments on how to enhance the effectiveness of the multilateral system (BPd § 25b). The coherence of donor policies on multilateral institutions, global funds and programmes was to be improved. More effective use should be made of existing multilateral channels with a focus on good performers. Proliferation of multilateral channels should be curbed, inter alia, by agreeing on principles for guiding joint efforts in this area. Multilateral organisations committed to strengthening their participation in coordination and mutual accountability mechanism at all levels.

This section of the stock-take report highlights progress and challenges in implementing §25b and is organised as follows: (i) it provides a qualitative snapshot of progress by capturing achievements and initiatives working towards the realisation of the various commitments, (ii) analyzes constraints and incentives from the perspective of key stakeholders, and (iii) draws conclusions and recommendations for discussion at the political level. The section is the result of a desk review of various official and informal documents, enriched by a small number of key informant interviews (see Annex 4 for the list of interviewees). The report draws heavily on published and unpublished documents and figures from the OECD DAC.

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<sup>48</sup> OECD DAC n.d.

<sup>49</sup> OECD 2012c, p. 32

## 2.2 Stock-take on Implementation of § 25b Commitments

This section highlights and discusses progress and promising developments related to the implementation of commitments made in the Busan Partnership document concerning multilateral proliferation and multilateral effectiveness (BPd §25b).

### 2.2.1 Improved Coherence of Policies on Multilateral Institutions

§25b of the Busan Partnership document starts as follows:

“We will improve the coherence of our policies on multilateral institutions, global funds and programs.”  
(BPd, §25b)

The lack of coherence in donor policies and allocation of funding contributes to the fragmented and patchy nature of the multilateral “non-system”.<sup>50</sup> When making use of the multilateral system, donors pursue their individual priorities and policy goals, and sometimes have set up specific new aid channels to meet them.

Donors regularly voice their priorities regarding strategic reforms in governing bodies of multilateral organisations. Consultation among shareholders and coordination within constituency groups take place regularly in reaction to concrete reform proposals tabled to executive boards, or in policy dialogues with individual multilateral institutions such as during missions, annual meetings or special sessions. In addition, some donors have more continuous reform dialogues with individual multilateral institutions, e.g., the donor consultations with the WB related to its ongoing procurement reform. However, the policies and reform priorities that donors would like to see implemented in multilateral institutions are frequently driven by their own domestic agendas which may leave multilateral organisations caught between competing priorities.

Efforts by donors to improve the coherence of their policies regarding the multilateral development system have seen some advances since Busan, e.g., by broadening policy dialogue and coordination beyond the scope of individual multilateral organisations. Some tangible outcomes can be singled out, such as thematic working groups, which have been a particularly successful way for donors to coordinate their reform dialogues with specific multilateral organisations. Such groups were established in the context of IDA replenishment negotiations, for example, the IDA Working Group on Fragile States chaired by France and Germany, the IDA Results Measurement Working Group, or the G7 development group where donors have successfully coordinated their position and interacted with a more focused and harmonized voice.

However, donors have made very little progress on a number of key issues to improve coherence of the multilateral system (e.g., overlapping mandates) or to improve the funding of particular organisations (e.g., the requested “critical mass” of UN core funding). Particular challenges for policy dialogue on multilateral issues among donors remain with regard to (i) reaching binding conclusions and translating accords into common reform dialogues with multilaterals; and (ii) the lack of donor respect for political agreements reached in operational decision-making. Joint harmonisation efforts by multilateral

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<sup>50</sup> Reisen (2009)

organisations themselves offer a promising complementary option to improve system-wide coherence that donors should encourage more frequently.

### **Emerging Good Practice 1**

#### ***Senior Level Donor Meetings on Multilateral Reform (SLDM)***

In the past, a strategic dialogue among donors on critical issues beyond individual multilateral institutions has not regularly taken place. In this regard, the series of **Senior Level Donor Meetings (SLDM)** initiated by the UK in 2012 filled a gap. The forum, which has met 4 times so far, brings together senior level officials (Director Generals) and selected staff from 18 donor countries and representatives from OECD and MOPAN. Discussions focus on those reform topics where members see a particular need to improve their multilateral engagement and jointly support reforms in the multilateral system (particularly the Multilateral Development Banks and the UN system). In times of tight budgets, the forum prominently addresses—inter alia—questions of cost-effectiveness, results orientation and assessments of multilateral effectiveness, but also fragmentation and proliferation within the multilateral aid system.

Although it is still too early to assess outcomes, SLDM participants appreciate the opportunity to exchange their perspectives, jointly analyze the topics, weigh their options, and work towards better harmonized engagements with selected multilateral institutions. Members prepare discussion papers and work towards joint recommendations and initiatives.

However, the SLDM faces at least three challenges. First, the SLDM is one among several donor group meetings on multilateral issues and should, therefore, further clarify its specific value added and the possible synergies with other donor fora (e.g., the Geneva Group, MOPAN, and the Utstein group).<sup>51</sup> Second, most donors face a challenge in terms of internal coherence within their administrations. Therefore, even if the SLDM could provide “upstream” policy coordination, ensuring that this is reflected in the management practices of individual donors remains an issue. A last issue that may in the longer term limit the value of policy coordination initiatives, such as the SLDM series, is the lack of representation and perspectives of partner countries (as the ultimate beneficiaries) in these meetings.

### **Emerging Good Practice 2**

#### ***Coherence Pursued by Multilateral Organisations***

Improved **coherence** has since long also been **pursued by multilateral organisations** themselves. An array of joint task forces and working groups has tried to harmonize approaches and standards among Multilateral Development Banks (MDBs) around a broad range of topics and procedures.<sup>52</sup> A particularly successful case in retrospect has been the Working Group of Multilateral Development Banks on

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<sup>51</sup> The Geneva Group is an informal group of representatives of donor countries leading a continuous dialogue with a broad number of UN agencies through twice-yearly senior level consultation and a large number of expert level working groups in Geneva, Rome, New York and Vienna. The Utstein Group is an informal group of likeminded donors (originally Norway, UK, the Netherlands, Canada and Germany), coordinating their development cooperation policies and pursuing joint initiatives. Regarding MOPAN, see section 2.2.

<sup>52</sup> See e.g., AfDB et al 2005.



“Managing for Development Results” that was initiated in 2003 to better align performance assessment and results reporting of its members.<sup>53</sup> In 2005, institutions agreed on a Common Performance Assessment Framework publishing yearly reports with institutional profiles and continuously improving its methodology. Since 2011, the concepts and methodological outcomes of this work have taken root, as many of the institutions institutionalized—also in response to demands of shareholders—corporate results frameworks and measurement systems. As a result, key terms and the structure of the four level corporate results system of many MDBs are very closely aligned, even if the choice of indicators remains at the discretion of each institution.<sup>54</sup> This example shows how internal coordination among multilaterals, although sometimes perceived as a lengthy process, is a critical element for complementing the coherence of donor policies and can result in greater system-wide coherence. As in the past, donors should therefore call upon and support these internal coordination processes of multilateral (sub-) systems.

## 2.2.2 Effective use of existing multilateral channels

§25b of the Busan Partnership document continues as follows:

“We will make effective use of existing multilateral channels, focusing on those that are performing well.” (BPd, §25b)

Since Busan, there were no attempts to reach international agreement on the meaning of “making effective use” of multilateral channels. This part of the commitment did not receive adequate collective attention and operationalisation by donors. In principle, each donor can therefore build on its own criteria and priorities to determine how to use multilateral channels most effectively.<sup>55</sup> In practice, some common sense criteria for effective use easily come to mind that may not be controversial: (i) the engagement or investment with an institution/channel according to its agreed mandate; (ii) the operational activities of the institution/channel should yield an adequate level of measurable results; (iii) it should do so in the most cost-effective way; (iv) the investment should make use of the strategic strategies and corporate systems; and, (v) it should promote, not compromise, the overall capacity and performance of a multilateral institution. However, reaching a common understanding or an explicit international agreement has not been pursued.

However, some progress was made by a number of bilateral donors with regard to the assessments of multilateral organisations, building on separate methodologies. The assessments helped shape their future multilateral engagement, budget allocations and reform dialogues with the multilaterals. At the same time, a joint multilateral performance assessment initiative (MOPAN) was pursued largely in parallel to the bilateral assessments, despite the fact that the criteria for performance assessment of both differ only slightly. In view of the proliferation of assessments, which run the risk of producing inconsistent results, further consideration should be given to develop a truly joint performance assessment module by overhauling the MOPAN methodology. This could be complemented by donor-

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<sup>53</sup> Members were AfDB, AsDB, IFAD, IADB, IsDB, EBRD, and WB.

<sup>54</sup> Cf. organizational effectiveness, operational effectiveness, Bank’s contribution to partner country results, and partner country results.

<sup>55</sup> The “Good practice lessons of good multilateral donorship” proposed by the OECD DAC in its 2011 multilateral aid report (p.22) are a valuable exception, but address the issue of multilateral donorship from a more operational perspective.

specific modules reflecting their policy priorities and be applied more broadly and with more frequent updates.

### **Emerging Good Practice 1**

#### ***Multilateral Organisations Reviews by Donors***

In recent years, several donors have conducted assessments of multilateral institutions building on their own methodologies.<sup>56</sup> The assessments regularly included both performance and relevance modules and aimed at identifying strengths and weaknesses of the assessed multilateral institutions and, ultimately, shaping engagement strategies and budget allocations.

The bilateral assessments differed considerably in scope, sometimes comprising all the multilaterals receiving funding by a donor, sometimes only focusing on the major organisations. Some assessments, e.g., those made by UK and Australia, included comprehensive data gathering, interviews with stakeholders, focus groups and analytical tools. These assessments represent a major effort by the donors and often their multilateral partners. Other donors based their assessment on existing information (e.g., Sweden and Norway).

The current situation is best described as a proliferation of assessments. According to the DAC 2012 Multilateral Aid Report, there is considerable overlap between the bilateral and the MOPAN assessments (see below). Multiple assessments with similar, but not fully comparable, methods bear the risk of signalling different messages to the assessed multilaterals and identifying different reform requirements, which should be avoided for the sake of the coherence of donor policies. Also, in terms of efficiency, it appears difficult to justify one donor investing simultaneously in several different assessment initiatives.

### **Emerging Good Practice 2**

#### ***MOPAN***

In recent years, a **joint assessment initiative** was conducted largely in parallel to the bilateral assessments – the Multilateral Organisations Performance Assessment Network.

MOPAN, established in 2002, currently comprises 17 bilateral members that have all committed to join MOPAN to cease bilateral assessments.<sup>57</sup> Since 2009, the network has annually conducted 4-6 assessments of multilateral organisations. MOPAN aims to provide credible evidence on the organisational effectiveness and performance of the assessed organisations so that members can meet their domestic accountability requirements and promote dialogue among members, the assessed organisations and other partners. In 2011-13, MOPAN conducted 15 assessments.<sup>58</sup> Assessments are based on surveys, document reviews and consultations with staff members of the multilateral

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<sup>56</sup> See e.g. the assessments by Australia (AusAID, Australian Multilateral Assessment 2012), the United Kingdom (DIFID, Multilateral Aid Review 2011) and Sweden (Government Offices of Sweden, Swedish assessment of multilateral organizations, 2012); see also 2012 DAC Multilateral Aid Review regarding a comparison of the assessment methodologies.

<sup>57</sup> Members of the network are currently: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Korea, the Netherlands, Norway, Spain, Sweden, Switzerland, the United Kingdom, and the United States of America.

<sup>58</sup> 2011: IDB, FAO, UNEP, UNHCR, UNWRA; 2012: UNAIDS, UNDP, UNICEF, AfDB, GAVI, IBRD/IDA; 2013: ADB, IFAD, WHO, WFP.

organisations under review. Compared with bilateral assessments, MOPAN uses larger sample sizes for stakeholder feedback, including country-level data. MOPAN does not compare the assessed organisations regarding their performance, since their mandates and structures may vary too much in scope and nature. Rather, it aims at promoting dialogue and helping determine the direction of reform and areas for improvement.

The recent independent evaluation of MOPAN points to a number of challenging issues in MOPAN's work: (i) the usefulness of assessment results for member countries should be improved (currently MOPAN reports are at best one input for their interaction with the multilateral organisations); (ii) the usefulness of the MOPAN assessment for the multilaterals assessed seems limited due to a lack of ownership and engagement of multilaterals in the process; (iii) the role of MOPAN assessments vis-à-vis the on-going bilateral assessments should be clarified to promote harmonisation and reduce transaction costs; (iv) assessments should rely to a greater extent on information provided by the multilaterals themselves; and (v) several methodological issues need to be reviewed. In addition, bilateral donors indicated that they require a broader yearly coverage and a more frequent updates of assessments.

While the evaluation points to important shortcomings, one has to recognize the broad base of stakeholder perception by MOPAN including survey feedback from the country level. Many members value the work very much and are determined to make MOPAN more responsive to their needs and possibly making it the central instrument for assessing multilateral effectiveness. Since the evaluation, MOPAN has embarked on a comprehensive reform process which will be decided upon by the end of 2013.

### **2.2.3 Reduced Proliferation of Multilateral Channels and Principles for Joint Efforts<sup>59</sup>**

The next commitment of §25b BPd states:

“We will work to reduce the proliferation of these channels and will, by end of 2012, agree on principles and guidelines to guide our joint efforts.” (BPd, §25b)

This Busan commitment addresses all stakeholders contributing resources to multilateral organisations or channels. Prominently, it relates to the group of DAC donors who jointly finance the vast majority of the multilateral system, even if non-DAC donors have significantly increased the share of their assistance to multilateral organisations.<sup>60</sup>

Multilateral assistance is currently delivered by more than 200 organisations<sup>61</sup> with considerable overlap in terms of mandate and area of intervention. Efforts to reduce the proliferation of multilateral channels could focus on realigning mandates or even merging existing institutions. An exceptional example was the establishment of UN Women (in 2010) through a merger of four formerly independent UN offices. However, chances for similar mergers in the future are perceived as slim by many observers.

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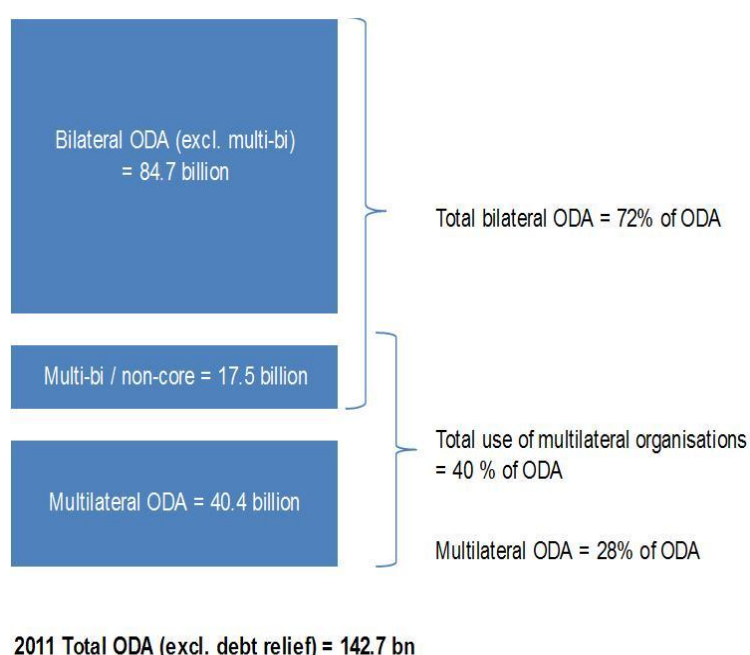
<sup>59</sup> Large parts of this section were gratefully drawn from: Germany/ OECD 2013.

<sup>60</sup> Cf. OECD 2011b, p. 31 ff

<sup>61</sup> Cf. DAC List of ODA-eligible international organizations.

As indicated in the introduction, the proliferation of both bilateral and multilateral assistance has increased.<sup>62</sup> For multilateral assistance, this proliferation is particularly evident when earmarked contributions are taken into account, which had been on the rise until 2011. The traditionally higher concentration for multilaterals then declined to close to that of DAC members' bilateral aid (58% vs. 53%). In 2011, of the total aid channelled through the multilateral system, USD 40 billion was provided as core funding and USD 18 billion as earmarked funding (see Figure 2), i.e., 30% of total funding was non-core contributions.

**Figure 2: Total Resources of the Multilateral Aid System in 2011 (USD)**



Source: OECD DAC 2013 Multilateral Aid Report (forthcoming); based on Creditor Reporting System (CRS) data

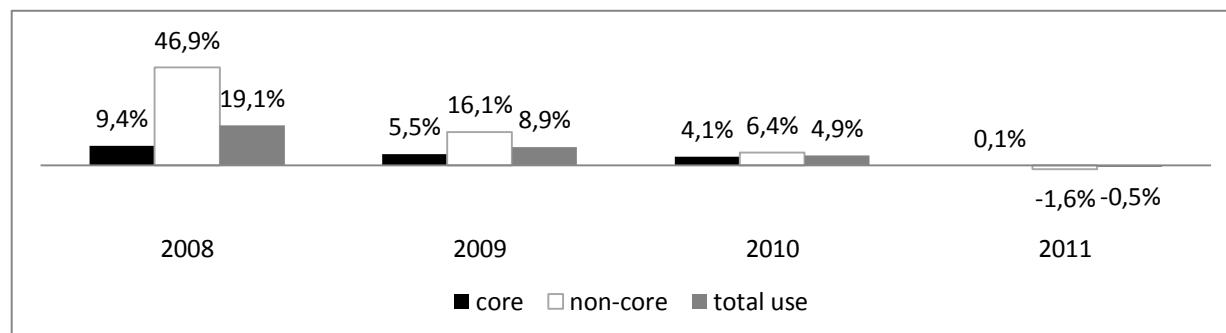
For individual multilateral organisations, in particular UN agencies, the share of non-core resources can be much higher.<sup>63</sup> Over the last 15 years, the share of core for UN development organisations decreased from 67% in 1995 to 30% of overall funding for development activities in 2010, while at the same time 70% were non-core contributions. This trend has many detrimental effects. Core funding— whose use is directly linked to the UN entities' multilateral mandates and strategic plans and approved by the governing bodies—is viewed as the most flexible, pooled resource that best allows alignment and support to partner country priorities. In contrast, non-core funding is usually earmarked and thus restricted with regard to its use and application.

<sup>62</sup> Cf. OECD DAC 2012c; 2012 and 2011 OECD Report on Division of Labour: Addressing Cross-Country Fragmentation of Aid; DAC Task Team on Division of Labour and Complementarity (Urs Bürcky), Trends in In-Country Aid Fragmentation and Donor Proliferation, June 2011.

<sup>63</sup> Five UN agencies, funds and programmes have a particularly pronounced share of non-core funding (UNCHR 75%, UNECE 75%, FAO 73%, UNICEF 70%, and UNDP 68%).

Remarkably, as pointed out in the 2013 OECD DAC Multilateral Aid Report (forthcoming), after a period of fast growth, non-core funding has in 2011 declined (by 1%) for the first time in the past 20 years, while core funding basically stagnated (see Figure 3). However, this decline is more likely a reflection of the fact that aid budgets of several donors continue to be negatively impacted by current fiscal pressure than a reversal towards more prudent multilateral allocations. Moreover, a change in the number of multilateral channels since Busan could not be established, as comparative data was not (yet) available.

**Figure 3: Multilateral Aid Growth Rates (in percentage change compared to previous year)**



Source: Germany/OECD 2013<sup>64</sup>; Based on Creditor Reporting System (CRS)

The literature on non-core funding<sup>65</sup> has analyzed the advantages and disadvantages of earmarked funding for specific projects, regions or themes. While these can help meet specific needs (e.g., providing funding to fragile states, humanitarian crises, countries without access to concessional funding) and evolving development challenges (e.g., innovation, global public goods), they can also pose challenges in terms of coordination, duplication of work, and transaction costs. In particular, for those organisations depending largely on non-core funding, it may endanger their institutional coherence as they become implementers for bilateral funders, lose their independence, and fail to focus on their core mandate.

Non-core funding is particularly problematic when alignment with regular operations of the multilateral organisation and with partner country programmes is not ensured. Even when broadly aligned with strategic plans, administrative transaction costs for embedding non-core funding in an organisation's work plan are often very high (separate projects, reporting, accountability, etc.). Various forms of earmarked funding (e.g., single and thematic Trust Funds, Fiduciary Intermediary Funds, etc.) often lead to the creation of new and often financially insignificant aid relationships with multiple partner countries.<sup>66</sup> While acknowledging certain advantages of TF resources, partner countries question the high level of control remaining with the TF holding organisations, their "off-budget" character and a particular lack of information and transparency regarding TF-resources.

However, the opposite can be true. Multilateral organisations sometimes host pooled funding arrangements which reduce proliferation as they channel financial resources from several donors via a single line of funding to a particular partner country programme (e.g., the UN One funds or the WB managed multi-donor support for the Protecting Basic Services Programme in Ethiopia). Also, multi-

<sup>64</sup> Cf. Germany /OECD 2013

<sup>65</sup> See OECD 2011b, OECD 2012c, Thalwitz 2013; IEG 2011; Mahn 2012; Reinsberg 2013; UN/DESA 2013; Mahn 2012.

<sup>66</sup> OECD DAC Multilateral Aid Report 2012

donor trust funds (instead of single-donor arrangements) have been pursued to diminish the negative repercussions of TF.

On balance, it appears that the disadvantages of non-core funding need to be addressed more vigorously, while additional benefits would have to be more transparently justified. Further quantitative and qualitative research is needed to empirically substantiate the net impact of earmarked funding on multilateral organisations and on partner countries.

The extent to which multilateral channels have been reduced since Busan could not be verified in an aggregate manner due to a lack of data. However, given the rise in non-core contributions to the multilateral system until 2011, it can be assumed that a number of new channels were created. However, there are examples of trust funds consolidation and funding reforms by both the WB and UN agencies. The details of such reforms are outlined below.

### **Emerging Good Practice 1** ***Trust Fund Reform by the WB***

For the last decade, the WB has pursued reforms of its trust fund portfolio, which consists of an elaborate typology of IBRD/IDA Trust Funds, Financial Intermediary Funds (FIFs), and IFC Trust Funds.<sup>67</sup> In the current round of reform, the focus is on improving the strategic alignment of TF management with the WB's emerging new strategy. Moreover, the WB managed to rapidly reduce its IBRD/IDA TF portfolio, decreasing the number from 780 in 2011 to 685 in 2012.<sup>68</sup> Strategic consultations with donors on their TF portfolios led to consolidation through shifting smaller funds into larger accounts, and closing down dormant funds and single-donor trust funds (SDTF).<sup>69</sup> Moreover, the WB encourages donors to set up multi-donor trust funds (MDTF), increasing their share from 31% to 50% of overall IDA/IBRD Trust Funds over the past 5 years. The WB actively manages this trend by introducing a threshold of USD 2 million for establishing TFs and by creating thematic umbrella facilities which aim to enhance alignment with WB strategies and contribute to reducing internal fragmentation. Finally, the WB introduced standardized governance clauses for the exit of TFs (sunset clauses) and fees for specific requirements. Sunset clauses reflect the idea that TFs should be temporary financing mechanisms for specific aims, and that they would prevent the growth of dormant funds. In addition, standardized fees for extra requirements might help to promote balance between integration of TFs in the core business of the WB and donors' desire for customization.

While these important improvements have had their first positive results, donors asked the Bank to be stricter in closing TFs which are no longer needed or where the WB plays no important role. With regard to the criteria for setting up a TF, donors suggested an additional criterion considering the impact of a trust fund on the further fragmentation of the multilateral aid landscape.

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<sup>67</sup> FIFs are also known as "vertical funds" meaning that the WB transfers mostly sector-specific funds to third-party recipients but is itself not the governing entity. The latter are for example GEF, GAVI, GFATM, etc. IFC TFs are mostly pooled for multi-year programs of technical assistance administered by IFC.

<sup>68</sup> WB, Trust Fund Reform. *Progress to Date and Future Directions*, 2013a:7

<sup>69</sup> Over the last 5 years, 144 Single Donor Trust Funds were closed.

## **Emerging Good Practice 2**

### ***Funding Reforms Set Out in the 2012 UN Quadrennial Comprehensive Policy Review (QCPR)***

The QCPR Resolution's chapter on "Funding of Operational Activities of the UN for Development" is celebrated as major achievement by donors and UN agencies alike for openly addressing the challenges of ever increasing shares of non-core/earmarked funding to the UN development system. Besides emphasizing the need for increased core funding, the resolution includes several provisions aiming to improve the quality of non-core funding. Earmarking should be avoided, which would help reduce fragmentation and transaction costs. Contributions should be made within a multi-year framework, increasing predictability. The practice of subsidizing non-core resources from core resources should be stopped, and full cost recovery should become the norm. The first reform steps have been taken. The Executive Boards of UNDP, UNICEF, UNFPA and UN Women have already endorsed major reforms. These include delivery of services on the basis of multi-year strategic plans and integrated budgetary frameworks comprising core and non-core resources, the introduction of a harmonized cost classification, a 1% increase in overhead costs for non-core distributions, as well as differentiated cost recovery rates.<sup>70</sup> Furthermore, the UNDP-managed Multi Partner Trust Fund Office (MPTFO) was created, which acts as a trustee and is considered a useful advisor to UN agencies (in particular with regard to donor requirements), country offices, and donors concerning setting up funds, lessons learned and best practices. Moreover, UN agencies (e.g., UNDP, UNICEF and UNFPA) have established broad thematic TFs to reduce reliance on single-donor TFs. With the partner country-related One Fund and the Delivering Results Together Fund, the UN system has instruments for reducing the level of earmarking, i.e., allowing for earmarking at the country and sectoral level, but not at the agency, outcome or programme level.

The mentioned reforms are currently underway. It remains to be seen how they will contribute to improving the quality of non-core funding and reducing proliferation (i.e., more thematic, more multi-donor funding, less cross-subsidization, soft earmarking, etc.). Monitoring frameworks for tracking progress are under preparation. A particular challenge in QCPR implementation is that UN agencies have very different systems and approaches on delivery, revenues, cost classification, procurement, etc.

### **Guiding Principles for Joint Efforts to Reduce Proliferation**

In Busan, participants also committed to agree, by the end of 2012, on principles and guidelines to guide joint efforts towards reducing proliferation of multilateral channels.

By end of 2012, no formal agreement was reached regarding respective principles or guidelines.

However, OECD DAC had led a process to prepare a set of draft principles by October 2012 (see box 1 below), which were part of the 2012 DAC Report on Multilateral Aid and tabled to DAC members at the High Level Meeting (HLM) in December 2012. At the HLM, DAC members reaffirmed their commitment to "develop principles to reduce fragmentation in multilateral development assistance". Other stakeholders, e.g., non-DAC donors and other actors also represented in Busan, have so far not been part of the discussion.

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<sup>70</sup> Rates now differ considerably: 1) an additional 1% reduction for non-core contributions greater than USD 40 million, (2) a reduction for thematic funds, (3) a preferential rate for government cost-sharing contributions, South-South contributions and private-sector contributions, (4) a 0.5 % surcharge in higher risk situations.

**Box 1: Proposed Principles to Reduce the Proliferation of Multilateral Channels**

- **Use existing channels as the default**, adjusting them where necessary, and address any legal and administrative barriers that may prevent their use.
- Use the international community's appetite for new initiatives to **innovate and reform the existing multilateral system**, allowing for donor visibility.
- **Regularly review the number** of multilateral organisations, funds and programmes with the aim of reducing their number through consolidation without decreasing the overall volume of resources.
- **Provide core or non-earmarked contributions** to multilateral organisations where relevant and possible.
- Ensure that new multilateral programmes and channels are multi-donor arrangements, are time-bound, subject to mid-term reviews, and do not impose excessive reporting requirements if their creation is unavoidable.
- **Support country-level harmonisation** among all providers of development co-operation including through representation on governing boards of multilateral organisations, funds and programmes.
- **Monitor trends and progress** to curb the proliferation of channels at the global level. Inform monitoring in partner countries.

In order to fulfil the time-bound Busan commitment, it would seem most appropriate to have the first Ministerial level meeting of the Global Partnership for Effective Development Co-operation (GPEDC) in Mexico in April 2014 seek agreement regarding the draft principles together with the full set of stakeholders that were present in Busan. In order to achieve this in time, the principles should be broadly circulated and consulted during the preparation process of the Ministerial level meeting.

#### **2.2.4 Strengthened Participation in Coordination and Mutual Accountability Mechanisms**

§25b of the Busan Partnership document ends as follows:

“As they continue to implement their respective commitments on aid effectiveness, multilateral organisations, global funds and programs will strengthen their participation in coordination and mutual accountability mechanisms at the country, regional and global level.” (BPd, §25b)

Based on the data from PD monitoring in 2010, the overall performance of multilateral organisations can be assessed as slightly above average with regard to their participation in coordination and mutual accountability mechanisms. However, a better representation of multilaterals in future monitoring exercises would be desirable. Progress made since Busan could not be thoroughly assessed due to data limitations. The information provided by multilaterals themselves remains inconclusive regarding progress made. Overall, much more stringent monitoring and self-reporting of their performance regarding coordination and mutual accountability mechanisms would appear necessary to assess implementation of the commitment. Credible information at the country-level is provided by Rwanda's donor performance assessment mechanism that assesses multilaterals favourably against their individual targets, while at the same time identifying specific areas for improvement. As more partner



countries are likely to adopt similar country-based mutual accountability mechanisms, this will lead to much stronger mutual accountability arrangements and provide a very potent source of information for progress assessments. Multilateral organisations as a group are doing well on aid transparency, an important pre-condition for accountability. UN Delivering as One is a coordination initiative that has expanded since Busan, from pilots to larger number of partner countries with good prospects to improve effectiveness and reducing proliferation.

## Country-level Coordination

Table 2 displays the participation of multilateral organisations in country-level coordination mechanisms in 2010, as measured by the related indicators in the last round of PD Monitoring.<sup>73</sup>

**Table 2: Participation of Multilateral Organisations in Coordination Mechanisms at the Country Level as per the Paris Declaration on Monitoring, 2011<sup>74</sup>**

Multilateral Organization	Ind. 4 Coordination of Technical Assistance	Ind. 5a Use of PFM Systems	Ind. 5b Use of Proc. Systems	Ind. 9 Harmonized approaches to PBA	Ind. 10a Joint Missions	Ind. 10b Joint Analytical Work
AfDB	69%	47%	32%	35%	14%	50%
AsDB	44%	90%	29%	50%	15%	39%
EU Institutions <sup>71</sup>	50%	49%	47%	52%	19%	57%
GAVI	-	0%	0%	34%	34%	-
Global Fund	-	49%	60%	72%	18%	25%
IFAD	43%	77%	82%	25%	45%	60%
IMF	0%	89%	32%	52%	27%	58%
IDB	65%	12%	5%	80%	67%	75%
UN	70%	22%	12%	45%	38%	61%
WB	73%	71%	55%	59%	29%	59%
Average % MO <sup>72</sup>	52%	51%	35%	50%	31%	48%
Average % all donors	57%	51%	44%	45%	29%	45%
International Target	50%	55%	./.	66%	40%	66%

Source: Data and ratings are compiled from OECD, Progress in Implementing the PD, 2011.

<sup>71</sup> The EU plays a dual role in development assistance, as it is a donor in its own right, but is often presented a multilateral for statistical purposes. Throughout this report, we consider the EU in its second role.

<sup>72</sup> Calculating the average value for multilateral organizations is done here for illustrative purposes only (not comparable from a statistical point of view), as the values for every multilateral is based on very diverse partner country portfolios.

<sup>73</sup> Besides the main harmonization indicators of the PD framework we have included the relevant indicators for the use of country systems (use of country PFM and procurement systems), as they represent the strongest form of coordination with country priorities and programs, and equally with contributions of other donors.

<sup>74</sup> Overall, the PD Monitoring includes 12 indicators. The chart above only draws on those indicators referring to alignment and harmonization, i.e., (4) Strengthen capacity by coordinated support, (5a) Use of country PFM systems percentage of aid for the government sector using partner countries' PFM systems, (5b) Use of country procurement systems percentage of aid for the government sector using partner countries' procurement systems, (9) Use of common arrangement of procedures percentage of aid provided in the context of programme-based approaches, (10a) Joint missions percentage of donor missions to the field undertaken jointly, (10b) Joint country analytic work percentage of country analytic work undertaken jointly.

Results show a lot of variation with respect to the achievement of the internationally agreed targets. While every multilateral organisation achieved at least one of the targets, there are some that have met 3 or 4 targets. For each indicator, there are organisations that clearly fall short of the target, indicating where the biggest improvements are to be made.

Overall, many multilaterals need to make further steps improve the use of (i) country procurement systems, (ii) programme-based approaches (PBA), (iii) joint missions and (iv) joint analytical work.

Unfortunately, there is no consistent information available to assess progress since Busan related to the participation of multilateral in coordination mechanisms at country-level. Results from the on-going global monitoring will report on improvements (or backsliding) only with regard to use of country systems, and will only be available by early 2014. A brief review of self-reported progress from some multilaterals on Paris coordination indicators reveals an inconclusive picture, with some improvements reported by AfDB, slight declines for the indicator reported by AsDB, while others either publish no data at all or limit themselves to reporting data from the last PD survey in 2011.<sup>75</sup> A proper assessment cannot be made at this time of the progress by multilaterals in participating in coordination mechanisms. Feedback from partner countries suggests that some multilateral organisations (UNDP, WB) regularly take leading roles in aid coordination, be it with regard to high-level meetings of development partners, consultative group meetings, sector working groups or multi-donor support for partner programmes. UNDP supports aid management capacity development efforts of many partner countries.

### **Mutual Accountability at the Country Level**

Mutual accountability refers to the recognition that aid is more effective if partner countries and donors are not only accountable to their respective domestic constituencies, but also to each other for the provision and use of resources and the achievement of broader development results. While donors have many possibilities to hold partner countries accountable, ultimately by withholding aid, partner countries usually have many fewer options. Mutual accountability mechanisms therefore aim at a more balanced situation where partner countries can bring their views and preferences to the table and influence donor behaviour with regard to aid allocation and delivery. In practice, mutual accountability mechanisms are known under different names and formats, ranging from mutual performance assessments and joint reviews to independent monitoring reports. An important pre-condition for mutual accountability is transparency and the timely sharing of information. Besides the partner country government and donors, the participation of other domestic stakeholders (e.g., parliaments, civil society) is increasingly seen as essential in order not to undermine domestic accountability institutions.

Mutual accountability as a core principle of the Paris Declaration has received adequate attention only in recent years. PD Monitoring highlighted that only 38% of partner countries displayed all the features of a functional mutual accountability system (aid policy, aid effectiveness targets, and broad-based dialogue), thereby falling short of the 100% target of the Paris Declaration. The slow progress regarding mutual accountability was confirmed by two comprehensive surveys coordinated by the UN

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<sup>75</sup> Cf. AfDB, Annual Development Effectiveness Review 2012:35-36; AsDB, Development Effectiveness Review 2012:51-52; IDB Development Effectiveness Overview 2012; WB Corporate Scorecard 2012.

Development Cooperation Forum (UN-DCF) in 2010 and 2012. The 2012 survey showed that some overall progress has been made, but only four partner countries out of 105 (Rwanda, Benin, Malawi, Mozambique) had defined individual donor targets, seen as essential to influence the behaviour of individual donors.

Both the PD monitoring and the UN-DCF surveys did not capture differentiated information regarding the participation of multilateral organisations in country-level mutual accountability mechanisms. Respective results from the Busan global monitoring are not yet available. Therefore, a quantitative assessment of progress is not possible. However, important indications can be drawn from the donor performance assessment frameworks of partner countries.

### **Emerging Good Practice 1**

#### ***Rwanda Donor Performance Assessment***

In 2009 Rwanda launched a donor performance assessment framework as part of its mutual review process. The framework draws from national and international agreements on the quality of development assistance. So far, three rounds of assessments were carried out. The most recent 2011/12 assessments covered the following five multilaterals: AfDB, EU, GAVI, WB and the UN family. The assessment framework had assigned individual provider targets to all donors, also to the multilaterals. In summary, good progress was noted for the multilaterals regarding achievement of their annual targets. On average, they rated better in meeting their aid effectiveness targets than bilateral donors in Rwanda. Only the UN family—where 8 organisations (IFAD, UNDP, UNFPA, UN Habitat, UNICEF, WHO, FAO, UNIDO) were assessed as one organisation—clearly fell below the performance level of other multilaterals. Predictability, aid-on-budget and special reporting requirements were the main problem areas.<sup>76</sup> In order to become a truly mutual accountability exercise, it would be useful to disaggregate the UN family and assess UN agencies separately in the future.

It can be expected that more countries will assign individual targets to their donors by assessing donor performance regularly. These country-level assessments may then provide a much better basis for assessing the respective Busan commitment and understanding the performance and the constraints of bilateral and multilateral agencies. In addition, future surveys on mutual accountability should differentiate information according to participating development partner allowing the separation of various engagement levels of bilateral and multilateral donors.

### **Mutual Accountability at the Regional and Global Levels**

Mutual accountability arrangements at country level can be strengthened and reinforced by mechanisms at the regional and global levels. These take the form of independent assessments, peer reviews and international monitoring exercises such as the PD Monitoring, the Fragile States monitoring, etc. Multilaterals regularly participate in, or are subject of, these global or regional initiatives. For example, in the PD monitoring, the aforementioned nine multilateral organisations and the UN family have participated and partly supported the in-country process.

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<sup>76</sup> Interestingly, Rwanda's report points to the inability of UN institutions to make firm commitments for contributions to be executed by the Rwandan Government.

Transparency is an important enabling factor for mutual accountability. Following the Busan agreement regarding the implementation of a common standard for aid transparency by the end of 2013, donors and development organisations have made huge strides towards providing more information on their development activities. Although many organisations still have some ways to go for full implementation of the transparency standard, substantial progress has been observed for many donors in the 2013 Transparency Index. The index comprises information on 17 multilateral organisations and different EU departments. Progress is rated positive, with 13 organisations considered fair (and better) and only 4 organisations assessed as poor. This indicates that at least the large multilaterals engage in opening up and providing more timely information to the public. However, more complete representation of multilaterals would be desirable. Providing information according to international standards often does not meet the information requirements of partner countries. Bilateral and multilateral donors should provide information to partner countries in formats and intervals that partner countries can use easily. In doing so, they should ensure the consistency of data sets, an area where feedback from partner countries indicates that improvement is needed.

## **Emerging Good Practice 2**

### **UN Delivering as One: Making the UN System More Coherent, Effective and Efficient**

In recent years, the UN Delivering as One initiative was launched. It shows significant potential for further rationalizing the effectiveness, efficiency and impact of UN assistance.

Since 2001, the UN General Assembly discussed the need to strengthen the coordination of operational activities of the United Nations Development Group (UNDG). As a result, the Delivering as One initiative was announced in 2006 to improve coherence, efficiency and effectiveness of the UN system at the partner country level. Piloting started in eight partner countries in 2007. Duplications, fragmentation and transaction costs of the system should be reduced, the capacity for joint strategic approaches increased, economies of scale realized, and sharp competition for funds avoided. Four principles guide the reforms: One Leader, One Programme, One Budget and, where appropriate, One Office. Country pilots had considerable freedom to operationalize reforms related to these general principles. Two additional reform pillars emerged in the process: “One Voice”, reflecting the benefit of interacting with partners and external stakeholders in a coordinated way; and “One Fund”, representing an instrument for joint resource mobilisation intended to counter the trends of fragmentation, low predictability and hard earmarking of funding.

In 2012, an independent evaluation of the Delivery as One initiative pointed to the fact that, while freedom to innovate diverse approaches were a big advantage of the pilots, in the future more stringent implementation should be pursued. The evaluation took stock of achievements and challenges, e.g., the remaining role conflicts for the Resident Coordinator who is regularly also the UNDP resident representative. The evaluation also pointed to the slow progress in establishing truly integrated common budget frameworks, and the lack of monitoring and evaluation capacity needed to work towards a results-based management model. Overall, the evaluation confirmed the strong relevance of the Delivery as One initiative, but saw only moderate progress regarding increased effectiveness. In view of the high transaction costs, efficiency gains have hardly been achieved so far.

In the meantime, the political relevance of the Delivering as One approach and its key principles has been re-confirmed by the 2012 QCPR resolution. The approach will now be scaled up to 27 more partner countries. Early institutional resistance against Delivery as One-related changes and induced transaction costs have eased. Currently, the UNDG is preparing “standard operating procedures” to guide further implementation of the approach, which more clearly set minimum requirements.

## **2.3 Challenges and Opportunities in Implementation**

Implementing the commitments of BPd \$25b requires changes in current practices by all stakeholders. The following subsections briefly discuss challenges and opportunities for strengthened reforms by considering the opportunity and incentive structure of the three main stakeholder groups.

### **2.3.1 Challenges and Opportunities at the Donor Level**

Donors as the main funders have a special responsibility to pursue policies, funding decisions and behaviour that enable multilateral organisations to maximize results at the least cost and minimize detrimental effects. The particular nature of multilateral institutions implies the pooling of “contributions so that they lose their identity and become an integral part” of the financial assets of the multilateral organisation.<sup>77</sup> Results achieved with these contributions are collective results – not attributable to any particular funder. At the same time, donors have the pressure to account individually for their funding and the results achieved to their parliament and public. Results measurement and results management systems have thus emerged as a dominant theme in donor reform dialogue with multilaterals. In addition, donors have intensified their levels of oversight and external assessments for rationalizing multilateral funding and energizing their reform dialogue.

Donors are a heterogeneous group. They display diverse preferences with regard to their national aid objectives, specialization, aid delivery channels and tolerance for risk, all of which strongly reflect the political and institutional domestic context in which they operate. Improving coherence in donor policies and behaviour towards multilateral organisations is definitely a collective action problem, where a group of independent actors with different preference structures has to collaborate and fully subsume its actions to reach a shared goal or benefit. Therefore, ensuring coherence will always be an obstinate and volatile undertaking.

Donors make very different use of the multilateral system (see Annex 2.1). Besides contributing to the core mandates of multilateral organisations, they may pursue different objectives with their multilateral investments, including ensuring visibility or influencing the multilateral’s policy according to the donor’s national development priorities. Agenda setting, leveraging innovations or promoting otherwise underrepresented issues regularly go hand-in-hand with the mobilization of additional funding and establishing trust funds. In view of these multiple objectives, it is not surprising that there is no apparent international agreement on the meaning of an “effective use of multilateral system”.

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<sup>77</sup> Cf. OECD DAC Multilateral Aid Report 2012, p.14.

A major motivation driving the increasing imbalance between core and non-core funding may lie in the hesitations and lack of donor confidence regarding the performance and cost-effectiveness of many multilaterals. In reaction, donors opt to allocate an increasing share of their resources into “earmarked” programmes, often with separate financial and results reporting. Earmarked funding provides the donor with a more comfortable level of direct control and individually attributable results compared to the arms-length accountability arrangements that multilaterals have for their core resources. Another motive in favour of earmarked funding may be the flexibility for decision makers to quickly re-/allocate funds to particular countries, sectors or topics of high public interest. A third reason is to provide funding for the provision or preservation of global public goods which goes beyond the scope of the normal country-based business model. A last point, which may also help to explain the use of multilaterals as implementers, rather than increasing core funding, are (i) limitations in bilateral implementation capacity, or (ii) a political cutback on other harmonized, high volume aid modalities such as the use of joint general budget support.

### **2.3.2 Challenges and Opportunities at the Multilateral Organisation Level**

When looking at their mandates, functions and governance arrangements, multilateral development organisations are a very mixed group. They include organisations that are fully focused on operational development activities, but also those who also assume norm-setting roles. Besides organisations with a globally reach, some cover only regions and sub-regions. Some organisations cover the full spectrum of development topics, while others are specialized on certain sectors, issues or development challenges. As expected, multilateral organisations normally follow their own specific mandates, functions, individual governance arrangements and lines of accountability. These have been introduced by mutual agreement among their shareholders during their establishment. Continuous oversight and orientation are provided by their governing bodies. Despite specialization, there is a high degree of overlap among many organisations and comparative advantages are often not easy to determine. As is well known from organisational theory, organisations have their intrinsic motivation to pursue their own existence. Their multilateral character, which draws on diverse and sometimes vested interests, seems to immunize organisations to some extent against major structural alignments, mergers and de-investments.

Multilaterals, like any organisation, have self-interest in reinforcing or expanding their business. As such, the quest to acquire funding and business cases is a major driving force. The preference of donors to allocate increasing amounts of non-core funding has led to a situation where the portfolio of multilaterals, in particular the UN organisations, includes an increasing share of funding for earmarked programmes and projects. In case these are not co-financing existing core activities, it leads to further proliferation of channels with separate results reporting and lines of financial accountability. With core financing declining over the years, UN organisations have increasing competition with each other, leading to unsustainable overhead rates and core-funding subsidization of non-core funding, thus limiting the remaining core resources for development activities.<sup>78</sup> Structural options to overcome this awkward situation are not in sight. Their bargaining power is limited vis-à-vis donors for a “critical mass of core funding”. This is also due to a lack of confidence of major donors in their results orientation and cost-effectiveness. Funding decisions on core and non-core funding are not interrelated. Avoiding non-

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<sup>78</sup> Cf. UN/DESA (2012)

core resources does not mean that donors will increase core funding. Denying receipt of non-core contributions could eventually even risk losing core funding.

The situation is somewhat different for the WB and other MDBs as non-core funding is considerably lower share of their total resources, although these are also quite dispersed. Both the WB and the UN family have undertaken reforms to counter the proliferation of earmarked funding as described above. These efforts to improve the quality of additional multilateral financing may lead to a net reduction in the number of channels and hopefully reduce transaction costs and improve alignment with partner country priorities. However, it may not fully respond to increasing demands by partner countries regarding their lack of information and control over allocation of these funds.

### **2.3.3 Challenges and Opportunities at the Partner Country Level**

Partner countries are equally diverse with regard to benefits and challenges they perceive from the multilateral system and reforms (different perceptions of LDCs, MICs, and fragile states). In the end, they are the ultimate “owner” of the multilateral development system, having to bear the consequences of the current system or any reforms. Certainly, they have their own appreciation and views regarding the value-added and critical constraints in the delivery of multilateral reform. However, in general, they are the least involved and least influential stakeholder group in multilateral policy discussions or reform efforts. Generally, they are not at the table in donor reform dialogues and have limited voice and power in governing bodies of the multilaterals. Repeatedly, they have reported being sporadically consulted regarding donor-led coordination initiatives, e.g., the EU Joint Programming or the UN Delivering as One initiative, and have no major role in performance assessments of multilateral organisations or the decisions related to the creation or reduction of multilateral channels.

Partner countries regularly signal their appreciation of multilateral assistance, which they perceive as more neutral and less influenced by political interests than bilateral aid. The often large volumes of assistance provided by some multilaterals are very much valued, as is the breadth and depth of expertise and advice they can mobilize. Independent support to institutional capacity strengthening and the leading roles of some multilaterals in aid coordination are often equally well-regarded. However, partner countries also perceive the downsides of multilateral assistance. Often (but not generally) they see the very fragmented nature of delivery (e.g., by up to 20 UN organisations) as a concern. The lack of alignment, in particular in the use of country systems, the very uneven record in terms of predictability, and the continuing use of policy conditionality by some multilaterals, have frequently been criticized.

With regard to proliferation of the multilateral channels, partner countries see that the sheer numbers of multilateral organisations may be a problem with regard to duplication and increased transaction costs. However, they often consider the significance of a contribution, i.e., the value-added it produces and the appreciation it receives by partners and beneficiaries, as more important than respecting strict rules limiting the number of sector engagements by donors. In the same vein, partner countries have frequently expressed misgivings against donor-led aid rationalisation exercises as they may lose control over in-country allocation of aid and may face losses in overall funding.

Partner countries state that much of the fragmentation of the multilateral system results from earmarked non-core funding and trust fund arrangements. At the same time, they recognize the benefits arising from this kind of funding, i.e., facilitating support for technical assistance, crosscutting

and underprovided topics, balancing darling and orphan sectors, directing money to new areas and innovative approaches, and rapid access to funding for immediate action which cannot be provided through regular channels at the speed required. Some partners also value trust funds as a source of funding provided on grant terms.

With regard to trust funds and non-core contributions, partner countries also report major reservations as the government regularly is not in the “driver’s seat” and multilaterals maintain a high level of control over these resources.<sup>79</sup> Regularly, non-core and trust funds remain off-budget resources and, from a partner’s perspective, are characterized by a particular lack of information and transparency. In view of this situation, Uganda and the World Bank have introduced a special Joint Review Committee for WB Trust Funds to ensure relevance, alignment, information sharing and joint decision making.

When it comes to effectiveness, partner countries emphasize the constructive role, support and active participation in aid coordination processes by the major multilaterals (MDBs, UNDP). However, they see other multilaterals as less ready to take part and provide disaggregated information, e.g., in the context of the PD monitoring exercise. Mutual accountability mechanisms regularly cover multilaterals, but often without specific donor or organisation-specific effectiveness targets. With regard to the UN system, partner countries observe very uneven business standards, as in Rwanda where different standards prevail among UN organisations about the acceptability of partner government financial reports. Partners complain about the inability of many UN organisations to make a firm commitment over a medium term period. This is probably influenced by their volatile funding situation, resulting in a high share of non-core funding and mostly annual commitments by donors. It remains to be seen whether a Medium-Term Common Budgetary Framework introduced under the UN Delivery as One initiative will help improve this situation.

## 2.4 Conclusions and Recommendations

Overall, progress in implementing the commitments of BpD §25b has been **slow and incremental** with no striking breakthroughs. This is not very surprising given the relatively short time span since Busan and the politically and institutionally often protracted reforms required for major improvements with regard to multilateral proliferation and effectiveness. However, some achievements **in selected areas** and a number of **promising emerging practices** can be identified.

Some emerging good practices have emerged, namely:

- (i) the establishment of an upstream policy consultation forum (the SLDM series) for donors which has the potential to improve coherence of donor policies with concrete results still to be determined;
- (ii) reforms by multilateral organisations aiming at the reduction of financing channels. The WB TF reform leading to a significant consolidation of its TF portfolio, a shift from single to multi-donor TFs, and the introduction of sunset clauses and a differential fee structure. Similar, but less stringent, reforms have been taken up in the UN system with the introduction of an UNDP-managed Multi-Partner Trust Fund Office, a push for the reduction of “hard” earmarking, and the creation of broad thematic funds by some UN agencies.

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<sup>79</sup> At the same time, decisions on trust fund allocations are not taken in the governing bodies of the multilaterals.



- (iii) the political endorsement (QCPR) and stricter administrative guidance for the roll-out of the UN Delivering as One approach to another 30 partner countries, as well as the EU Joint Programming underway in a total of 40 partner countries, with both initiatives still having to prove their success.
- (iv) enhanced efforts by donors to assess the effectiveness of multilateral organisations, still requiring further harmonisation and integration in a joint effort.

Despite efforts and early results, in the past 2 years commitments under BPd §25b **have not received prominent collective attention from the different Busan signatories**, with an apparent lack of international engagement on the commitments. A binding follow-up mechanism for implementation of the commitments has not been put in place, leaving huge data gaps for any progress assessment. Most of the reforms have been ongoing, sometimes for years, prior to Busan. So it remains unclear to what extent the commitments of §25b have inspired or accelerated recent reform efforts.

**Fundamental challenges** remain regarding the following issues:

- Principles for guiding joint efforts to reduce proliferation, one of the few time-bound commitments in the BPd, have been prepared by the OECD DAC, but were not agreed by DAC donors at their 2012 High Level Meeting in London, nor consulted with a broader set of Busan stakeholders.
- The definition of an “effective use of multilateral channels” has not been clarified among donors or between donors and partner countries, with no common international understanding on this cornerstone of any multilateral effectiveness discussion in sight.
- Donors increasingly contribute non-core instead of core funding to multilateral organisations, which undermines the very nature of the multilateral aid system and is viewed negatively by partner countries as they report usually having less information and control concerning non-core funding decisions.
- Donors face increasing pressure by media, parliament and civil society to focus on well-performing organisations. This trend has led to the proliferation of assessments, yielding methodological advances and initial results regarding allocation of funds and reform dialogues, while at the same time compromising prospects for a joint performance assessment approach such as MOPAN.
- Many multilateral organisations have conducted continuous internal reforms to implement their aid effectiveness commitments. However, comprehensive performance information regarding their participation in coordination and mutual accountability mechanisms is not available, as related indicators of the PD monitoring were not included in the Busan monitoring framework and data on mutual accountability does not allow analysis for individual donors.
- Donors and multilateral organisations are regularly engaged in formal and informal reform dialogues. Partner countries, which are the ultimate “owners” of the multilateral development system are strangely absent from the discussion on multilateral effectiveness except for occasional gatherings of Finance Ministers. Their feedback on country-level benefits or problems stemming from a multiplicity of multilateral channels, earmarked donor contributions and trust fund arrangements represents a crucial input for advancing multilateral effectiveness and reducing proliferation. Equally, their views and preferences would be highly valuable in more “upstream” policy discussions.

Summing up, in order to tackle the phenomenon of multilateral proliferation addressed in §25b of the BPd, Busan signatories should undertake the following steps.

**Endorse principles on multilateral proliferation.** Busan signatories continue to address the time-bound commitment regarding principles to guide joint efforts for reducing proliferation.

**Achieve coherent donor policies to address proliferation and fragmentation.** Donors act coherently when formulating policies and reform requirements (for individual multilateral organisations), assessing MO performance and deciding on core and non-core funding with a view to provide MOs with a critical mass of core contributions.

**Continue implementation of reforms to reduce proliferation and fragmentation.** Multilateral organisations continue to implement structural and governance reforms, results-measurement frameworks and improve peer-learning among MOs on reforms (e.g., UN QCPR, TF Reform in the WB, and RBM in MDBs). Furthermore, MOs participate on the basis of their comparative advantage and mandate in country-level coordination and mutual accountability.

**Improve partner countries' engagement.** Partner countries initiate a discussion on the effectiveness and the “effective use” of multilaterals at the country level and engage in ongoing reforms and performance reviews. They should urgently pursue the establishment of fully functional mutual accountability mechanisms taking into account single international organisations instead of aggregates such as the UN, EU, or WB group as well as individual donor targets, essential to inducing behaviour change.

### 3 The Issue of Under-Aided Countries

#### 3.1 Introduction

An important aspect of managing the diversity of development actors lies in achieving an efficient overall allocation of aid resources. Donor fragmentation and lack of coordination can decrease aid effectiveness by producing inefficiencies in cross-country aid allocations, resulting in the emergence of ‘aid orphans’ and ‘donor darlings’. The issue of ‘under-aided’ countries is attracting increasing attention in both development theory and practice because an efficient allocation of aid is of crucial importance for achieving the Millennium Development Goals (MDGs).

The discussion on under-aided recipients takes place in the broader context of donors’ commitments in various international fora in Paris (2005), Accra (2008) and Busan (2011) to improve aid effectiveness through a better cross-country Division of Labour (DoL). Among others, cross-country DoL aims at reducing the number of donors in overcrowded ‘aid darling’ countries while increasing engagement in ‘aid orphans’. As stated in the Accra Agenda for Action (AAA §17), DoL is aimed at achieving ‘*improved allocation of resources within sectors, within countries, and across countries*’. At the same time, the Accra Agenda for Action also states that ‘*new arrangements on the division of labour will not result in individual developing countries receiving less aid*’ (AAA §17a). At the 2011 Busan High Level Forum on Aid Effectiveness, donors committed to “*accelerate efforts to address the issue of countries that receive insufficient assistance, agreeing – by end of 2012 – on principles that will guide our actions to address this challenge*” (BPd §25c).

While the OECD has carried out important work to help identify ‘under-aided’ countries, the principles mentioned in Busan have not been agreed on so far making it difficult to deal with the phenomenon of ‘under-aided’ countries. To do that, one needs to understand how under-aided recipients can be identified, and get a better grasp of the nature and the extent of the problem, as well as of its underlying causes.

This part 3 of the stocktaking report first presents an analysis of the phenomenon of under-aided countries, based on an extensive literature review and drawing on experiences collected from 34 interviews with country members of the Building Block on Managing Diversity and Reducing Fragmentation, both on the recipient and on the donor side. Then two case studies are presented on Bangladesh and Madagascar, countries that have been identified as ‘potentially under-aided’.<sup>80</sup> Some conclusions and policy recommendations close Part 3.

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<sup>80</sup> OECD 2013d, p. 14

## 3.2 Under-Aided Countries: Analysis of an Elusive Phenomenon

### 3.2.1 Identification of Under-Aided Countries

The phenomenon of ‘under-aided’ recipients has been attracting increasing attention because it raises a number of concerns. First, a number of authors argue that potential efficiency gains could be reaped by reallocating aid from relatively over-aided to relatively under-aided countries.<sup>81</sup> Second, there is the perception that the poorest and most vulnerable countries are being abandoned by donors.<sup>82</sup> Third, neglecting some recipients can generate negative cross-border spillovers that threaten the effectiveness of aid programmes in other countries<sup>83</sup> and undermine the achievement of global public goods.<sup>84</sup>

The lack of clear guidelines for efficient aid allocation makes it difficult to define what ‘under-aided’ means and how to identify countries that might be receiving insufficient aid. Achieving allocative efficiency requires comparing the impact of aid across recipients and allocating resources where they promise the highest returns.<sup>85</sup> However, such comparisons are theoretically and empirically extremely difficult, and made even more complex by the existence of cross-border spillovers. Thus, for the moment no optimal cross-country aid allocation has been determined.

Neither the AAA nor the BpD clarify how under-aided countries should be identified. The problem of ‘aid orphans’ is generally mentioned in academic and policy papers only in passing and without specifying what is meant by the term.<sup>86</sup> Indeed, there is still no agreed definition of what constitutes an ‘aid orphan’ or the criteria that should be used to assess whether a country is receiving ‘sufficient’ amounts of aid. Proponents of needs-based approaches to aid allocation will argue that the poorest countries that receive small shares of aid are under-aided with respect to their needs. On the other hand, supporters of a performance-based approach to aid allocation will argue that more resources should be directed to strong performers that are considered able to use aid effectively. Because there is no universally accepted optimal allocation against which to assess the actual distribution of aid, there is also no consensus on what constitutes an aid orphan.<sup>87</sup>

Despite divergent opinions on what constitutes ‘insufficient aid’, one point of common agreement is that the concept should be understood as a relative one, meaning that recipients are considered under-aided not in absolute terms, but only relative to other recipients.

A number of studies have identified imbalances in aid allocations.<sup>88</sup> The studies predominantly point to disproportionately low aid flows to fragile countries that are neither post-conflict nor strategically important for donors. However, each of these papers assesses the actual distribution of aid against a specific allocation approach or formula. Therefore, the countries defined as under-aided by the various authors might not be considered under-aided if one takes a different approach to aid allocation.

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<sup>81</sup> E.g. Bigsten et al. 2011; Bigsten and Tengstam 2012; Utz 2010

<sup>82</sup> Mold et al. 2008, p. 2; World Bank 2011, p. 201

<sup>83</sup> World Bank, 2002; Marysse et al. 2006, p. 12; World Bank 2011, p. 277; Jones et al. 2004, p. 14

<sup>84</sup> Gunning 2004, p. 52

<sup>85</sup> Fan, Saurkar and Shields 2009, p. 526

<sup>86</sup> Brown and Swiss (forthcoming) offer an exhaustive review of the term’s use in academic and policy papers.

<sup>87</sup> OECD 2011c, p. 70

<sup>88</sup> McGillivray and Feeny 2008; Bigsten et al. 2011; Levin and Dollar 2005; Marysse et al. 2006

In 2010, the OECD proposed a methodology that assesses actual aid allocations<sup>89</sup> to Low Income Countries (LICs) and other Least Developed Countries (LDCs) against four different aid allocation formulas drawn from both needs-based<sup>90</sup> and performance-based<sup>91</sup> approaches to aid allocation. For each allocation model, a country is identified as under-aided if actual aid receipts are below the benchmark allocation by at least one percentage point of their GDP. By combining needs-based and performance-based approaches to aid allocation, the OECD started regularly compiling a watch list of ‘potentially under-aided countries’ with recipients that might be considered under-aided according to both needs- and performance-based approaches. In the 2013 list, these countries are Madagascar, Malawi, Bangladesh, Gambia, Guinea, Niger, Togo, and Nepal (see Table 3 and Annex 3.1).

**Table 3: Potentially Under-Aided Countries According to Performance-and Needs-Based Approaches<sup>92</sup>**

Country	Equal aid per capita	UNDP's TRAC1 aid allocation	Poverty-efficient aid allocation	IDA's performance-based aid allocation	Number of benchmarks	Estimated average funding gap (USD billion)*	Actual aid volume (USD million)	Fragile state
Madagascar	X	X	X	X	4	885	395	X
Malawi	X	X	X	X	4	434	772	X
Bangladesh	X		X	X	3	3,190	2,222	X
Gambia	X	X	X		3	40	138	
Guinea	X	X	X		3	449	314	X
Niger	X	X		X	3	452	643	X
Togo	X	X	X		3	201	278	X
Nepal	X		X		2	427	1,001	X

\* The average funding gap is an average of the four funding gaps from the different formulas (actual aid received minus the aid volume a country should receive according to each different allocation formula).

Countries are ranked according to the number of criteria under which they can be considered under-aided, not to the size of their estimated funding gaps. Recipients that result under-aided according to at least one needs-based and one performance-based approach are flagged as requiring special attention from the international community. The models used for compiling the list do not include all the possible approaches to aid allocation<sup>93</sup> but they represent the main ideas underlying needs- and performance-based perspectives.

<sup>89</sup> The latest list of potentially under-aided countries (OECD 2013d) was compiled on the basis of Country Programmable Aid (CPA) flows, plus humanitarian assistance and food aid for 2011. The OECD defines CPA as a subset of Official Development Assistance (ODA) reflecting the volume of aid that constitutes a cross-border flow and is subject to multi-year planning at country or regional level.

<sup>90</sup> These are the equal aid per capita and the UNDP TRAC1 allocation formulas.

<sup>91</sup> The Collier and Dollar poverty-efficient allocation formula and IDA's performance-based allocation formula

<sup>92</sup> See Annex 3.1 for a full OECD watch list based on country programmable aid flows for 2011.

<sup>93</sup> For example, approaches that suggest allocating larger shares of aid to countries affected by structural vulnerability or finding themselves in a post-conflict phase are not included, while the evidence suggests that aid is particularly effective in countries with these characteristics (Collier and Hoeffler 2002, pp. 8-9; Elbadawi et al. 2007; Demukaj 2011; Guillaumont 2008: 16; Collier and Dehn 2001. p. 10; and Gunning 2008).

The OECD list represents a good step forward in bringing some clarity on the issue of under-aided countries. However, awareness of the watch list still seems to be quite limited. In general, the problem of under-aided countries does not appear to be a particularly pressing concern for donors, and those who do show interest in the topic generally understand under-aided countries mostly as fragile states that receive low absolute volumes of aid, such as the Central African Republic or Chad, rather than as countries that are thought to be able to use larger volumes of aid efficiently. The presence in the OECD watch list of recipients like Bangladesh, who count many active donors and receive large absolute volumes of aid, is perceived by many as going too far from the original concept of an ‘aid orphan’. However, by showing that it is possible to identify recipients that can be considered under-aided from different perspectives, the OECD watch list provides a helpful basis for discussing the phenomenon of under-aided countries.

### 3.2.2 Causes Underlying the Phenomenon of Under-Aided Countries

If one accepts the OECD list of potentially under-aided countries, it appears that the group is composed in large part of fragile states located in Sub-Saharan Africa (SSA).<sup>94</sup> However, given that the share of aid going to fragile states has actually been growing in recent years, the problem of being under-aided seems to concern a subset of fragile states rather than the group as a whole. In 2010, 49% of Official Development Assistance (ODA) to the group of 47 fragile states was directed to only seven ‘donor darlings’.<sup>95</sup>

The existence of under-aided countries is not attributable to one major trend influencing overall aid allocations, but rather to a combination of different factors. A plethora of different approaches, goals and interests produce current allocation patterns. On the one hand, a general move towards greater performance-based selectivity induces donors to direct lower volumes of aid to countries with relatively bad institutions. This is due both to the idea that aid works better in well-run countries, and to donors’ reluctance to engage in difficult contexts where reputational and financial risks are higher.<sup>96</sup> On the other hand, needs still play an important role in determining aid allocations, particularly for UN agencies and other multilateral donors, and there is also an increasing attention to fragile states.<sup>97</sup> Finally, donors’ political and commercial interests, and their historical ties with specific developing countries, influence resource distribution as well.<sup>98</sup> This produces a complex pattern of aid allocation which benefits well-run countries but also low-performing ones that have particular importance for donors from a security, political, commercial or historical point of view. Countries that could use aid efficiently but that do not fall into either of these categories might not receive sufficient aid.<sup>99</sup>

The lower attractiveness of some recipients in terms of performance and of strategic importance for donors combines with a general lack of coordination among donors, which produces inefficient

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<sup>94</sup> OECD 2013d, p. 15

<sup>95</sup> These countries were Afghanistan, DRC, Ethiopia, Haiti, Pakistan, Gaza, and Iraq (OECD 2012a, p. 49). Of these, the DRC is considered under-aided following needs-based approaches to aid allocation, while Ethiopia receives ‘insufficient aid’ according to performance-based approaches (OECD 2013d).

<sup>96</sup> McGillivray 2005, p. 1; Levin and Dollar 2005; Bermeo 2008; Claessens et al. 2009

<sup>97</sup> World Bank 2011; OECD 2012a

<sup>98</sup> Alesina and Weder 1999; Neumayer 2003; Knack and Rahman 2008, pp. 2-3; Hout 2007; McGillivray and Oczkowski 1992; Vázquez 2008; Clist 2011, p. 42

<sup>99</sup> Rogerson 2005, 540; Corre et al. 2008, p. 24.

concentrations of resources in some ‘darling’ countries while other recipients that also have relatively high needs and performance remain neglected.<sup>100</sup> The emergence of donor darlings and aid orphans is closely linked to the fact that most donors do not integrate other donors’ allocations into their own allocation criteria and procedures.<sup>101</sup> Donor coordination could mitigate the phenomenon of under-aided countries by encouraging individual donors to allocate larger shares of aid to countries that receive disproportionately low amounts of aid by other donors. Instead, the evidence suggests that donors tend to herd.<sup>102</sup> Herding implies that donors actually do take other donors’ allocations into account when distributing their own aid, but in a way that worsens instead of mitigating the aid orphans/aid darlings divide.<sup>103</sup> The herding effect is particularly strong for allocations to aid orphans,<sup>104</sup> inducing donors to collectively shun them.<sup>105</sup>

Efforts by individual donors to concentrate their aid in a limited group of partner countries as part of their strategy to reduce fragmentation might cause a worsening of the phenomenon of under-aided countries if concentration is not coordinated and all donors choose the same partner countries.<sup>106</sup> Furthermore, if the selection of partner countries takes place in the context of a move towards greater selectivity in aid allocations, this could result in particularly sharp drops for low-performing countries while over-aided strong performers experience diminishing or even negative returns to aid.<sup>107</sup>

Achieving coordination in aid allocation is difficult because aid allocation is considered to be a sovereign policy, thus justifying unilateral decisions.<sup>108</sup> Although most donors select partner countries on the basis of criteria, the eventual decision is of political nature.<sup>109</sup> Differences in programming cycles add technical obstacles to the political unwillingness to coordinate allocations. Moreover, lack of transparency in aid flows makes it difficult for donors to coordinate their allocations.

In conclusion, the existence of countries that can be considered under-aided with respect to both their needs and their performance exposes a general lack of coordination among donors concerning allocation decisions, and a reluctance by bilateral donors to engage in low-performing countries that have limited strategic importance for donors.

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<sup>100</sup> OECD 2011c, p. 70; Brown and Swiss 2013

<sup>101</sup> OECD 2011c, p. 12. Interviews conducted for this report (see annex IV) suggested that some donors included the number of donors active in a certain recipient among the criteria used to guide the selection of partner countries. However, this is only one of many criteria considered and plays a minor role. More common is the practice of discussing country exits with other donors and partner countries, although this is done in a rather ad hoc manner and does not always result in well-coordinated actions.

<sup>102</sup> Desai and Kharas 2010; Barthel 2012; Steinwand 2013, p. 8; Frot and Santiso 2009; Powell and Bobba 2006

<sup>103</sup> Herding behavior is attributed mainly to the fear of missing out on commercial and political opportunities in countries assisted by other donors (Mascarenhas and Sandler 2006, 356; Powell and Bobba 2006, Frot and Santiso 2009, p. 25, Barthel 2012).

<sup>104</sup> Aid orphans are defined by the authors as countries receiving less ODA than what a formula based on GDP, population size, and institutional quality would predict.

<sup>105</sup> Davies and Klasen 2013, p. 25

<sup>106</sup> Anderson 2012, p. 2

<sup>107</sup> OECD 2013d, p. 2; Anderson 2012, p. 2; Brown and Swiss 2013

<sup>108</sup> Grimm and Schulz 2009, p. 9

<sup>109</sup> Mürle 2007, p. 27; Bigsten et al. 2011, pp. 152-153

### 3.2.3 The Partial Compensatory Role of Multilateral and Non-DAC Donors

The phenomenon of under-aided countries seems to be attributable mostly to neglect by bilateral donors.<sup>110</sup> Multilateral donors appear to be less biased against partner countries with weak institutions<sup>111</sup> as well as less influenced by herding behaviour and commercial, political, or historical factors in their aid allocations.<sup>112</sup> The nine countries in the OECD watch list received on average 55% of their aid from multilateral donors, a much higher share than the global average of 36%<sup>113</sup> (see table in Annex 3.2). Allocations by multilateral donors compensate to some extent for neglect by bilateral donors, but only in some countries, and often not enough.<sup>114</sup> Multilateral donors' compensatory role does not appear to be driven by a conscious effort to allocate larger shares of their aid to countries that receive disproportionately low amounts of aid by bilateral donors, but results from the use of allocation formulas.<sup>115</sup>

Allocation patterns by emerging and private donors should be taken into account as well, as they might be compensating for relative neglect by DAC donors. However, the role of Arab and Latin American donors in countries identified as under-aided appears to be rather limited, as both groups focus predominantly on their neighbours,<sup>116</sup> while the countries on the watch-list are located in SSA and in Southeast Asia. China and India, on the other hand, sometimes focus on fragile states, such as Nepal, that appear to receive relatively low shares of DAC aid.<sup>117</sup> As for private aid, the little evidence available on its allocation does not suggest that NGOs or private foundations might be targeting countries neglected by official donors.<sup>118</sup>

In conclusion, allocation patterns by multilateral and non-DAC donors sometimes compensate for neglect by DAC donors, but only in part and not as a result of a conscious effort. These donors are not likely to take on responsibility for allocating more aid to under-aided countries. Multilateral donors already resent the pressure of being forced to increasingly engage in difficult partnership countries where bilateral donors are terminating aid programmes.<sup>119</sup> Furthermore, requesting multilateral organisations to invest their resources predominantly in difficult contexts would conflict with demands from shareholders on these organisations to perform efficiently and deliver results.

### 3.3 Comparative Case Study of Two Potentially Under-Aided Countries

The OECD watch list was compiled based on a purely theoretical exercise. Its authors recommend complementing the list with case studies to assess whether the countries identified as under-aided could efficiently use larger volumes of aid. The following sections present the results of case studies conducted in two countries that appear at the top of the 2013 watch list: Madagascar and Bangladesh. Madagascar is considered under-aided according to all four approaches to aid allocation included in the

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<sup>110</sup> Levin and Dollar 2005; OECD 2013d: 14; Utz 2010: 20-21; Davies and Klasen 2013, p. 25

<sup>111</sup> OECD 2011b, 7; Bermeo 2008, p. 41

<sup>112</sup> Öhler 2013, p. 6; Davies and Klasen 2013, p. 8; Barthel 2012; Frot and Santiso 2009

<sup>113</sup> OECD 2013d, p. 14

<sup>114</sup> Utz 2010, p. 22

<sup>115</sup> Davies and Klasen 2013, p. 8

<sup>116</sup> Kragelund 2008, pp. 259-262

<sup>117</sup> OECD 2012a, p. 53

<sup>118</sup> Dreher et al. 2007; Koch et al. 2011; Koch 2007; Marten and Witte 2008; Esser and Bench 2011, p. 16

<sup>119</sup> OECD 2011b, p. 7



OECD methodology. Bangladesh is considered under-aided according to all except UNDP's TRAC 1 formula, a needs-based allocation formula that weighs per capita income and population size, with income and population ceilings that favour poorer and smaller countries. Besides occupying top positions in the watch list, Bangladesh and Madagascar have very little in common. Their very different characteristics in terms of location, economic and political context, degree of aid dependency, and number of donors engaged make them particularly suited for a comparative case study of this kind.

Building on previous desk research, field research was conducted in August/September 2013. Thirty-four interviews were held with government representatives and the major donors active in the two countries. The focus was put predominantly on bilateral donors because the problem of under-aided countries has been attributed mainly to relative neglect by these donors. In the following sections, basic facts on needs, performance and aid volumes will be presented for each country, complemented by a brief analysis of trends in aid receipts. A qualitative assessment of whether these countries can be considered 'under-aided' follows and leads to some conclusions and policy recommendations.

### 3.3.1 Case Study I: Madagascar

#### Basic Facts

Needs: According to all the criteria used by international development agencies, Madagascar is one of the poorest countries in the world. GNI per capita (Atlas method) is USD 420 (compared to an average of USD 584 for other LICs), and 93% of its 21.9 million population lives on less than two dollars a day. Madagascar is a Least Developed Country (LDC) and ranks 151<sup>st</sup> (out of 186 countries) on the Human Development Index (HDI). It is not included in international lists of fragile states, but a coup in 2009 plunged the country into a state of political crisis from which it has yet to recover. In addition to its political troubles, Madagascar is prone to natural disasters such as heavy floods and severe drought.

Performance: With regards to institutional quality, Madagascar has a Country Policy and Institutional Assessment (CPIA) score of 3.4, above the threshold for fragile states (3.2) and slightly below the average for non-fragile SSA countries (3.5). In terms of development outcomes, the country is lagging behind the SSA average for Millennium Development Goal (MDG) achievements.

Aid: in 2011, Madagascar received USD million 441 (net ODA), equal to USD 20 per capita, compared to a per capita average of USD 53 for LDCs and of USD 54 for African countries.<sup>120</sup> Judging from aid to GDP ratios in the 1960s and the 2000s, Madagascar shows a persistently high and even growing aid dependency.<sup>121</sup> However, due to sharp drops in aid receipts following the political crisis in 2009, the aid/GDP ratio fell from 7.5% to 4.7%. Of the 25 donors giving aid to Madagascar, 12 are bilateral and 13 are multilateral.

Like many countries on the watch list, Madagascar receives a relatively large share of aid (60%) from multilateral donors (against a global average of 36%). The country is not only among the bottom ten recipients in terms of aid per capita and as a percentage of GNI, but is also raising concerns because of its heavy reliance on a few donors. In 2009, five donors—France (24%), United States (18%), EU

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<sup>120</sup> World Bank data, online: <http://data.worldbank.org/indicator/DY.OA.ODAT.CD>

<sup>121</sup> Hailu and Shiferaw 2011

institutions (13%), the World Bank and the African Development Bank (8% each)—were providing more than 70% of the country's total aid.<sup>122</sup>

Beyond aid resources: Resources beyond aid for financing development are scarce. Migrant remittances are very low at USD 10 million, and Foreign Direct Investment (FDI) inflows are only USD 907.4 million. FDI in the mining sector increased just as the political crisis caused a fall in aid inflows, but overall it is low and mainly concentrated on nickel and other natural resources. Madagascar's low GNI per capita and its unstable GDP growth<sup>123</sup> results in low national revenues. External funding accounted for 77% of national budgetary resources allocated to public investment projects in 2009, although this percentage decreased to 61% in 2010-2011.<sup>124</sup> In general, Madagascar appears to be badly underfunded.

### **Historic Trends in Aid Flows to Madagascar**

After independence from France in 1960, Madagascar received most of its aid from the former colonial power. Later—as other donors such as Germany, Italy, Japan, Switzerland, and the United States started allocating aid to the country—the share of France's foreign aid contribution decreased from 85% of total bilateral aid in the 1960s to an average of 50% between 1979 and 2004. However, aid allocations to Madagascar remained low compared to other countries. Steinwand notes that neighbouring Madagascar and Mozambique underwent similar democratic transitions in 1992.<sup>125</sup> However, while many donors rushed to Mozambique, where aid disbursements rose to about USD 64.5 per capita, aid levels in Madagascar remained far below, with an average of USD 25.6 per capita.

Aid trends since 2000 can be grouped into three separate periods (see the graph in Annex 3.3). Aid increased up to a peak in 2005, partly due to the implementation of structural policy adjustments and to the culmination of the Highly Indebted Poor Country initiative.<sup>126</sup> Then, between 2006 and 2008, aid stabilized at USD 700-800 million. This period was marked by a strong national leadership which enjoyed the trust of the biggest donors. The beginning of the last period is marked by the 2009 coup, which induced most donors to suspend budgetary aid, freeze most large projects and cancel new ones. Aid volumes fell to USD 398.4 million, far below 2003 levels, before starting a modest recovery in 2010. The upturn was mainly led by increased aid flows from multilateral donors such as the World Bank, the African Development Bank and the UN. Among bilateral partners, the US and Norway also doubled their aid. While American focus is on essential humanitarian assistance in health, Norway increased its funding for education through the UN in order to preserve past achievements in that field. Decentralised cooperation from French local governments also increased from USD million 5.177 in 2009 to 8.816 million in 2012.<sup>127</sup>

However, overall aid volumes decreased again in 2011 and 2012, by -16.5% and -5.5% respectively. The 6.5% increase in aid receipts from multilateral donors could not compensate for the -17.6% decrease in

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<sup>122</sup> UN 2011, p. 22

<sup>123</sup> GDP growth was negative (-4.1%) in 2009 and weak (0.5%) in 2010, although it progressed to 1.6% in 2011 and 3.1% in 2012.

<sup>124</sup> GoM 2013, pp. 2-3

<sup>125</sup> Steinwand 2013, pp. 2-3

<sup>126</sup> However, debt relief does not represent a real aid flow to receiving countries, and is therefore not included in the calculation of aid allocations carried out to compile the OECD watch list.

<sup>127</sup> GoM forthcoming, p. 3

aid by bilateral partners. Disbursements in 2012 were only USD million 383.5, about half the aid volumes received in 2007.<sup>128</sup>

Decreases in aid from DAC donors raised the profile of non-DAC development partners such as China, South Korea, and OPEC donors. While their contribution amounts to only about 7% of total aid from 2009 to 2011, they represent important sources of funding for the government in times of ODA scarcity.<sup>129</sup>

### **Determinants of Past and Present Levels of Aid to Madagascar**

Low aid flows to Madagascar are generally attributed to the 2009 political crisis that produced sharp drops in aid. However, according to the watch list, Madagascar has been under-aided since at least 2006 which actually marked a peak year in aid volumes received by the country. This suggests that the 2009 crisis seriously aggravated the situation, but is not the only explanation for Madagascar's relatively low aid receipts.

Madagascar received disproportionately little aid even before the crisis for several reasons. First, the 2009 crisis was not the first one: another political crisis had occurred in 2001-2002 after which ODA increased until 2009, when the next crisis occurred. Aid volumes might have reached higher peaks if the country had been politically stable for a longer time. Second, Madagascar lacks importance for donor countries in terms of trade relationships, migration flows or security concerns. Its historical ties to France led the former colonial power to be the lead donor for a long time. However, the dominant role of France in terms of commercial and political influence has also been considered a factor that held back other donors from investing much in Madagascar since it was long seen as part of France's 'sphere of influence'.<sup>130</sup> Third, due to its isolated position and to the distance from other French-speaking countries, Madagascar did not benefit much from regional programmes. Finally, low population density, which increases the unit costs for delivering services, also contributed to make the country less attractive for some donors.

### **Aid Effectiveness in Madagascar**

Before the 2009 crisis, aid programmes in Madagascar were generally judged to be working well. In 2006, Madagascar became the first country to receive aid from the Millennium Challenge Account, a fund especially designed to target a small selection of well-performing countries. Good progress on governance indicators and human rights led donors to give direct budget support to the country.<sup>131</sup>

However, the situation changed dramatically after 2009. Most development partners suspended dialogue with the central government and started working predominantly through NGOs and local authorities. Budget support has been frozen and most aid is provided as project aid or humanitarian assistance. This is due not to the government's lack of performance on a technical level, but to donors' decision to give a strong political signal in the face of undemocratic developments. While most donors appear to be quite satisfied with the success rate of their aid programmes, lack of collaboration with the central government led them to express serious concerns about the sustainability of achievements.

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<sup>128</sup> GoM forthcoming, p. 1-2

<sup>129</sup> GoM 2013, pp. 2-3

<sup>130</sup> Steinwand 2013, pp. 2-3

<sup>131</sup> Jütersonke and Kartas 2010, p. 75

The absence of dialogue with the central government also poses huge obstacles to donor coordination and alignment, as shown by the deterioration of aid effectiveness indicators between 2008 and 2011.<sup>132</sup>

### **Conclusions and Policy Recommendations for Madagascar**

At donor country offices and government ministries in Madagascar, not many people are aware of the OECD watch list. There is serious concern about the sharp drops in aid receipts following the 2009 crisis. Few have the impression that the country was under-aided before 2006. However, since country-level actors often lack a general overview of global aid allocations, this does not rule out that, between 2006 and 2009, Madagascar was receiving disproportionately low volumes of aid relative to its needs and performance.

Aid before the crisis seems to have had a considerable development impact, thanks to the combination of very large needs and relatively good absorptive capacity as well as donor coordination and alignment. Before 2009, Madagascar might have been an under-aided country. With the drastic cuts in aid following the 2009 political crisis, the discrepancy between very large needs and low aid volumes has grown considerably. The scarcity of resources beyond aid on which the country could draw for maintaining social expenditures and financing development means that aid plays a very important role in Madagascar, as well as in terms of preserving gains already made. From a needs-based perspective, this would argue in favour of allocating more aid to the country. On the other hand, lack of cooperation between most donors and the government is reducing aid effectiveness and jeopardizing sustainability. Unless donors and the government of Madagascar overcome the political stalemate, at the moment efficiency considerations would suggest allocating larger shares of aid to countries where donors work together with the government and aid can be delivered in more effective ways.

Combining the pre- and the post-crisis pictures of Madagascar, it appears that the country tends to receive disproportionately low aid flows. If political developments in Madagascar allow donors to resume collaboration with the government, donors should make sure the country is allocated aid amounts that reflect its needs and performance relative to other countries. Considering Madagascar's scarce availability of resources beyond aid to finance development, it should also be remembered that further reductions in aid flows are likely to be very costly in terms of losses in development gains already made.

### **3.3.2 Case Study II: Bangladesh**

#### **Basic Facts**

Needs: Bangladesh is an LDC with a large population of 154.4 million. Despite GNI per capita considerably higher than in Madagascar at USD 840, 76.5% of the population lives on less than two dollars a day. Despite recent impressive progress on social indicators, the country still has very large development needs, in particular maternal health and access to safe drinking water. Its HDI ranks only 146<sup>th</sup> (Madagascar ranks 151<sup>st</sup>). It was estimated that Bangladesh would need a total investment (including domestic and external resources) of USD 78.2 billion between 2010 and 2015 to reach the MDGs. This would mean between USD 3 and 5 billion in foreign assistance depending on the country's

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<sup>132</sup> OECD 2011a

rate of growth.<sup>133</sup> Bangladesh is one of the most densely populated countries in the world, and land scarcity is made worse by the country's extreme vulnerability to floods, a problem that is likely to be exacerbated by climate change. Also, the International Network on Conflict and Fragility (INCAF) classifies the country as a fragile state.

Performance: Bangladesh's democratic institutions have been interrupted by episodes of military rule and are still undermined by a highly personalized fight for power between the two main parties. The country ranks 144<sup>th</sup> (out of 174) on Transparency International's Corruption Perceptions Index. Despite this, Bangladesh's CPIA rating of 3.5 is higher than both the average for all IDA-eligible countries (3.3) and that for non-SSA fragile states (3.1). In terms of development outcomes, the country presents itself as a strong performer. Among others, child mortality has been cut by 70% since the 1990s, one of the fastest rates among developing countries. The literacy rate has doubled. Gender disparity in school enrolment has been virtually eliminated (Holmes et al. 2010: 12). Its MDG indicators are above the average for South Asian countries, and even compare favourably with India despite the latter's higher per capita income, growth rate, and social expenditures.<sup>134</sup>

Aid: Bangladesh is considered under-aided according to 3 allocation models compared to 4 for Madagascar, but the average funding gap is estimated to be much higher (at USD 3.190 billion compared to USD 885 million for Madagascar).<sup>135</sup> The absolute net ODA volume received is quite large (USD 1.497 billion in 2011) but due to the country's large population, aid per capita amounts to only USD 10.<sup>136</sup> A relatively large number of donors (34) are active in Bangladesh, of which 18 are bilateral and 16 are multilateral. Bangladesh receives as much as 61.5 % of its aid from multilateral donors. Contrary to Madagascar, Bangladesh is not an aid dependent country since aid represents less than 2% of GNI.<sup>137</sup>

Beyond aid resources: Bangladesh has important sources of finance beyond ODA. It is among the countries receiving the highest remittance flows. In 2012, migrant remittances were USD 13 billion, which accounts for more than the sum of all government social-protection expenditures.<sup>138</sup> Over the last decade, FDI also enormously increased from USD 478 million to USD 4.817 billion and increased from 1.5% of GDP in 1990 to 5.4% in 2009 and 10.5% in 2011. However, FDI is concentrated in a limited number of sectors, notably telecommunications, banking, power, gas and petroleum, and textiles.<sup>139</sup> In terms of volume, both remittances and FDI are more important than ODA.<sup>140</sup> The availability of domestic resources to finance development is also increasing, thanks not only to an average yearly GDP growth of 5.8% during the past decade, but also to revenue reform that made taxation more efficient and increased the revenue/GDP ratio from 9.6% in 2000-01 to 11% in 2009-10.<sup>141</sup> However, national revenues are kept relatively low by large-scale tax evasion.<sup>142</sup>

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<sup>133</sup> Government of Bangladesh 2013, p. 97

<sup>134</sup> Quibria and Ahmad 2008, p. 2

<sup>135</sup> OECD 2013d, p. 20

<sup>136</sup> World Bank, online: <http://data.worldbank.org/indicator/DT.ODA.ODAT.CD>

<sup>137</sup> GoB 2011

<sup>138</sup> The Economist 2012b

<sup>139</sup> GoB 2009, p. 129

<sup>140</sup> GoB 2008, p. 5

<sup>141</sup> GoB 2011

<sup>142</sup> Mahmoud 2008, p.86

## Historic Trends in Aid Flows to Bangladesh

Total volumes of foreign aid to Bangladesh increased from USD 6.6 billion in the first decade of Bangladesh's independence, to USD 14.1 billion in the 1980s, USD 15.6 billion in the 1990s and USD 16.2 billion in the 2000s.<sup>143</sup> Over the same period, the proportion of bilateral/multilateral aid changed in favour of multilateral sources.<sup>144</sup> In terms of volume, the two most important donors for Bangladesh are the World Bank and the Asian Development Bank. While Bangladesh has received a considerable volume of ODA over the years, the importance of aid as a percentage of GDP has declined from 5.6% in 1990-91 to 1.6% in 2010-11. This was mainly due to a considerable growth in remittances, FDI, and domestic revenues, but also to a reduction of per capita ODA.<sup>145</sup> As a percentage of GDP, in recent years Bangladesh has been receiving less foreign assistance than either heavily-indebted poor countries or other low-income countries (LICs).<sup>146</sup>

## Determinants of Past and Present Levels of Aid to Bangladesh

Bangladesh receives very large aid flows, but its large population reduces aid per capita figures. In terms of aid volumes, Bangladesh is among the top 6 recipients, but is among the bottom ten in aid per capita and aid as a percentage of GNI.<sup>147</sup> This might in part be attributed to donors' tendency to allocate lower volumes of aid per capita to larger and more populous countries.<sup>148</sup>

Another reason for low per capita ODA to Bangladesh might also be the perception that the country has other resources beyond aid to finance development. A comparative analysis of investment needs for reaching the MDGs in Bangladesh, Cambodia, Ghana, Tanzania and Uganda noted that while Bangladesh presents the highest investment needs in absolute terms due to its large and growing population, on a per capita basis the county requires significantly less aid to meet the MDGs than the other countries in the sample.<sup>149</sup> This is mainly due to Bangladesh's higher GDP per capita and rate of economic growth which permits the government to mobilize more resources than many other poor countries.<sup>150</sup> While financial assistance is still needed, most development partners would agree that the county's most urgent need is for appropriate policy reforms such as tackling corruption and improving public financial management.<sup>151</sup> Consistent under-disbursement of committed aid (see next section) also deters donors from increasing ODA allocations.

Like Madagascar, Bangladesh lacks strategic importance for western donors. It has no important natural resources and does not pose significant security threats. However, unlike Madagascar, the country has important commercial links with donor countries, especially in the garment sector. Bangladesh also has historic links with, and strong migration flows to, the UK. It is the 4<sup>th</sup> largest recipient of UK bilateral aid. The UK's choice of Bangladesh as priority country was also the result of a bilateral aid review where Bangladesh was among the 5% of developing countries that scored highest in terms of both needs and

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<sup>143</sup> GoB 2011, p. 1

<sup>144</sup> GoB 2008, p. 5

<sup>145</sup> GoB 2013b, p. 14

<sup>146</sup> Quibria and Ahmad 2008, pp. 4-5

<sup>147</sup> UN 2011, p. 22

<sup>148</sup> Utz 2010, p. 5

<sup>149</sup> Sachs et al. 2004

<sup>150</sup> Sachs et al. 2004, p. 15

<sup>151</sup> Thornton, Kolkma and Fostvedt 2010, p. 3; Choudhury et al. 2010, pp. 6-7

performance indicators.<sup>152</sup> Moreover, Bangladesh is an important recipient for Asian donors. It is the second biggest country programme for Japan and receives aid from India and China who compete for political and commercial influence.<sup>153</sup>

### **Aid Effectiveness in Bangladesh**

Although progress has been made in terms of aid effectiveness (see part 1 of this report), there still is much room for improvement both on the donors' and on the Bangladeshi side. Project aid constitutes 96% of ODA which limits the country's ability to manage large flows of aid.<sup>154</sup> Widespread corruption makes donors wary of providing budget support, even more so after a recent corruption scandal that forced the World Bank to suspend the Padma Bridge construction project.<sup>155</sup> Donors' preference for their own systems and insufficient pressure from the government of Bangladesh adds to donor reluctance to provide aid in the form of budget support. Between significant red tape on the recipient side, and delays in procurements of goods and services on the donor side, donor preference for project aid often results in very slow aid disbursements.<sup>156</sup>

According to evaluation documents from three of the largest donors in the country (the Government of Japan, the World Bank and the Asian Development Bank), the performance of aid programmes has been mixed in Bangladesh. While country assistance programmes were judged to be overall quite successful, it was also noted that capacity constraints and time-consuming procedures often resulted in poorer and slower project implementation than in other countries.<sup>157</sup>

### **Conclusion and Policy Recommendations for Bangladesh**

As in Madagascar, awareness of the OECD watch list is very low. Among donors and government officials, the perception is not that Bangladesh needs more aid, but rather that the quality of aid should be improved. The money is there, but cannot be disbursed quickly and efficiently. On the one hand, donors are reluctant to give budget support. On the other hand, the predominant use of project aid combined with absorption capacity constraints often results in weak alignment and ownership as well as disbursement delays.

In this context, more aid does not seem the most straightforward answer. Bangladesh is a very different case from Madagascar. Here, strong economic performance and large flows of FDI and remittances suggest that the country's very large needs could be met with other sources of development finance. Large needs do not necessarily call for greater amounts of ODA, but aid could be used to leverage resources beyond aid. An example would be capacity development for improving the government's resource mobilization capacity. Indeed, despite budgetary allocations favourable to the social sectors, per capita public expenditure for health and education is still quite low even by South Asian standards.<sup>158</sup> Improving the low quality of public service delivery systems<sup>159</sup> is also an area where aid could have an important role to play. Among Bangladeshi policy makers, government officials, and civil

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<sup>152</sup> DFID 2011

<sup>153</sup> INTASAVE 2012, pp. 34-36; The Economist 2013c

<sup>154</sup> GoB 2011, pp. 19-20

<sup>155</sup> The Economist: 2012a

<sup>156</sup> GoB 2011, p. 20

<sup>157</sup> Quibria and Ahmad 2008, pp. 15-18

<sup>158</sup> Mahmoud 2008, p. 86

<sup>159</sup> Mahmoud 2008, p. 89

society, there is increasing awareness of the urgency of improving governance, suggesting that this could be a suitable moment for capacity development activities.<sup>160</sup>

There is a feeling among policy makers in the country that Bangladesh is at a transition point in its history, and that its rapid economic and export growth, rather than ODA, will allow it to make rapid development progress. In this context, aid could be used in a catalytic way for tapping resources from the private sector and to foster its contribution to future development achievements.

### 3.4 Conclusions and Recommendations

Addressing the problem of under-aided countries first requires developing a common understanding of who they are and how to identify them. Donors committed in Busan to agree by the end of 2012 '*on principles that will guide our actions to address this challenge*' (BPd §25c). Defining such principles is the first and overdue step.

The OECD watch list that monitors potentially under-aided countries represents a useful instrument for the international community to work towards a common understanding of an 'under-aided country'. However, the OECD itself stressed that the watch list needs to be complemented with a case-by-case analysis of flagged countries, and cannot serve as the only tool used for identifying under-aided recipients. The reasons for disproportionately low aid receipts can differ widely from country to country, ranging from limited absorptive capacity for aid, to lack of strong political and commercial ties to donor countries, uncoordinated aid allocations, and donor reactions to undemocratic changes in aid receiving countries. As the case studies in Part 3 showed, these different causes call for very different responses. Therefore, donors should avoid 'automatically' allocating more aid to the countries on the list. Rather, detailed case studies should be conducted in order to identify the specific causes of relatively low aid volumes and highlight risks and opportunities of directing larger aid flows to those recipients. Closer examination of potentially under-aided countries will also allow taking into account other criteria that are not considered in the watch list, such as a country's economic vulnerability as well as the availability of other resources beyond aid for financing development. Case studies will also enable a better assessment of the country's performance beyond the CPIA index, which might not be a sufficient predictor for absorption capacities.

Besides complementing it with case studies as proposed by the OECD, the watch list could be enhanced in two ways. First, it could give equal weight to needs and to performance. One of the two allocation formulas used to represent the needs-based allocation approach is the 'equal aid per capita' allocation formula, which is strictly speaking not needs-based. To make it more needs-based, the 'equal aid per capita' allocation formula could be substituted with 'equal aid per poor person'. Second, the watch list could be completed by a second list that highlights the most serious cases of 'insufficient aid'. Countries on the watch list are not ranked according to the size of their estimated funding gaps, but rather by the number of criteria under which they can be considered under-aided. This means that the list is not suited for setting priorities by highlighting the most urgent cases of 'insufficient aid'. This second list

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<sup>160</sup> Choudhury et al. 2010, pp. 6-7



would be compiled using the same criteria and methodology, but ranking countries on the basis of their per capita average funding gap.<sup>161</sup>

Many donors understand ‘under-aided countries’ in a much more literal sense than the OECD: as countries receiving low absolute volumes of aid or where few donors are active. Since these are mostly fragile states, there is a tendency to equate the problem of ‘under-aided’ countries with that of fragile states. However, the problem of under-aided countries seems to concern only a sub-group of fragile states that lack strategic importance for donors, so the phenomenon is unlikely to be addressed by allocating larger shares of aid to the group of fragile states as a whole. Strengthening the needs component of the watch list and creating a ranking that highlights urgent cases might help create momentum and make the list more compelling and intuitive for policy makers.

The identification of under-aided countries should be coupled with increased efforts by donors to coordinate their aid allocations. Indeed, besides suggesting reluctance by bilateral donors to engage in countries with relatively weak institutions that have limited strategic importance, the phenomenon of under-aided countries is attributable to donors’ political unwillingness to coordinate their cross-country aid allocations. To improve coordination in aid allocation, donors should take each other’s allocations into account when deciding on the distribution of their aid.

Coordination is difficult to achieve because donors consider aid allocations as a sovereign policy driven by a host of different factors, and are reluctant to set up a coordination framework. Bilateral donors’ decisions to move in and out of partner countries are often linked to changing governments and are therefore highly political and rather unpredictable. However, achieving full transparency of cross-country aid allocations and allocation procedures could help foster coordinated allocations. All donors should report their country-specific forward spending plans to the OECD and allow the latter to make this information public by lifting the confidentiality requirement. More transparency would facilitate donor coordination by allowing donors to take each other’s allocations into account in their own funding decisions and would ease the identification of under-aided countries. Coupled with a list of funding gaps per country and poor person, it would also provide partner governments and civil society in both recipient and donor countries with the necessary information to raise questions and demand accountability when the distribution of aid seems to be driven by strategic interests rather than by efficiency considerations. Given their increasing relevance, non-DAC official and private donors should disclose more information on aid allocations as well. Here, the Global Partnership for Effective Development Cooperation (GPEDC) could play an important role. Capitalizing on its inclusive character, the GPEDC could foster greater dedication by non-traditional donors to information sharing and coordination efforts. At the moment, even if under-aided recipients were clearly identified, it would remain unclear who should be responsible for allocating increased aid to those countries, and where the money should come from. In principle, it might be possible to redirect aid from countries graduating

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<sup>161</sup> Since the funding gap depends on the size of the country and its population, it should be calculated per capita or per poor person and not in absolute terms. This ranking should also be limited to countries considered under-aided according to both needs- and performance-based approaches. The funding gap is calculated as an average of the funding gaps derived from each of the four allocation formulas considered in the OECD methodology. Allocations in one formula could thus heavily bias the overall results. For example, if the funding gap is USD 5 billion for one formula and 0 for the other three models, the average gap would still be USD 1.25 billion even though the remaining three formulas would suggest that the country is not under-aided. Restricting the ranking to countries identified as under-aided according to both needs- and performance-based approaches would avoid countries identified as under-aided according to only one model figure in the ranking before countries considered under-aided from multiple measures.

to middle income status to under-aided LICs. Aid reallocations from newly graduated MICs to LICs occur automatically for donors using allocation formulas or allocation criteria that give high relevance to countries' income status. Moreover, the EU recently decided to reallocate a share of its aid from MICs to LICs through a 'differentiation process'. However, this type of reallocation currently targets the LIC group as a whole, not specific under-aided LICs.

For reallocations driven by DoL processes, the Accra Agenda for Action clearly states (§17) that DoL should not result in a reduction of aid received by individual countries. This rules out that reallocations from donor darlings to aid orphans could be made part of cross-country DoL efforts. Therefore, it is necessary to explore other possible sources of funding (including aid and beyond aid) that could be leveraged for countries receiving insufficient aid.

In this respect, reducing fragmentation could benefit under-aided countries in two ways. First, on the donor side, it would result in savings that could be reallocated to under-aided countries. In line with efforts to reduce fragmentation, increased engagement in under-aided countries could involve delegation to other bilateral or multilateral donors. However, care must be taken to prevent countries from excessive reliance on too few donors. Second, on the recipient side, reduced transaction costs would imply increased value even if absolute volumes of aid remained unchanged.

Finally, both donors and partner countries should explore ways to leverage other sources of finance beyond aid. The scope for increasing the amount and/or developmental impact of other types of public and private resources will vary from country to country, and should be an integral part of the case studies mentioned earlier. Large development needs do not necessarily have to be met by large flows of ODA, but aid could be used to leverage FDI, remittances, and domestic resources.

Summing up, in order to tackle the phenomenon of under-aided countries addressed in §25c of the BPd, the international community should undertake the following steps:

1. Agree on principles for the identification of under-aided countries. Identification could be based on the OECD watch list, completed with a case-by-case analysis of flagged countries. Case studies should clarify the specific reasons behind relatively low per capita aid flows and determine whether an increase of ODA is necessary or the country's needs should rather be met using other types of resources.
2. Establish a forum for discussing the findings of the case studies mentioned above on a regular basis, for example, at the annual OECD-DAC Senior Level Meeting.
3. Discuss possible sources of funding for directing additional aid to countries identified as under-aided. For countries where development needs might best be met by resources beyond aid, focus on how aid can be delivered in a way that maximizes its catalytic effect.
4. Achieve full transparency in aid allocations by all donors in order to improve aid predictability and the conditions for ex-ante donor coordination in cross-country aid allocations. In particular, all donors should report country-specific forward spending plans to the OECD and allow the latter to make them public by lifting the confidentiality requirement.

## 4 Final Conclusions and Policy Recommendations

While welcoming the diversity of development cooperation actors, the international community is aware of the burden that aid fragmentation and proliferation is posing on both partner countries and providers of development assistance, and has formulated respective goals in its declarations on aid effectiveness and effective development cooperation. §25 a-c of the Busan Partnership Document formulated clear goals and commitments aimed at enhanced use of country-led coordination arrangements, reduced proliferation and improved coherence of multilateral aid. It also addresses the issue of under-aided countries. However, concrete and significant improvements are not easy to achieve.

With regard to **country-led coordination arrangements** (BPd §25a), efforts in many countries are being undertaken to better manage an increasing number of development partners. The diversity of DPs has clear benefits as it enriches the choices of partner countries. Therefore, rather than going for reduced fragmentation, many partner countries and providers of development assistance have been trying to establish aid management systems that attempt to match the plurality of aid and integrate it into national priorities.

An interesting case in this respect is Bangladesh where aid diversity management has received special attention by the GoB since 2006. The management issue is particularly thorny given the background of Bangladesh receiving the bulk of its aid as highly fragmented project support. Therefore the GoB has developed a comprehensive communication structure for its dialogue with providers of development assistance on sectors and selected themes, and worked intensely on harmonizing implementation procedures among aid providers. In a next step, the GoB aims to rationalize aid by sectors based on donor mapping, comparative advantage assessment and agreements on DoL.

In Rwanda, the management of aid diversity has a comparatively long history as well. In 2008, the government of Rwanda conducted a donor mapping using an Aid Information Management System. The discovery of over- and under-aided sectors led the GoR to initiate an extensive division of labour process in 2010 based on the EU Code of Conduct on Complementarity and the DoL. It includes donor performance assessments and joint programming elements, and it puts a strong focus on concrete sector rationalisation. Rwanda's efforts are showing results. Aid management has become smoother. In 2012, the fragmentation ratio dropped for the first time, from around 40% to 31%. The GoR has taken a strong lead in the coordination of aid providers. Based on a clear national aid policy, it has demonstrated strong capacity to coordinate and lead efforts at the country level. Furthermore, a positive donor response to the government's quest for budget support rendered aid management less demanding compared to Bangladesh.

While Bangladesh has been focusing more on managing aid diversity by improving communication structures and the harmonisation of implementation procedures, Rwanda has been clearly pushing for DoL, aiming not only to better manage aid but also to reduce fragmentation. The analysis of the two cases, as well as a wide range of country experiences which were exchanged among members of the Building Block "Managing Diversity and Reducing Fragmentation", show that reducing fragmentation and managing aid diversity is complex. Respective systems need to be adjusted to the local conditions. The following general recommendations can be formulated which would apply to most partner countries aiming to improve their aid diversity management.

### Building Block Recommendations on Country-Led Coordination

1. **Focus on managing diversity:** While a high degree of aid fragmentation is typically associated with higher transaction costs, partner countries also see a clear advantage of a well-managed plurality of aid sources. Elements of good aid management such as aid management information systems, sector and donor mapping, sector rationalisation, clear agreements on division of labour, joint analysis, and the harmonisation of programming and implementation steps help partner countries to lower transaction costs and to better integrate aid in their national development strategies and plans. Donor predictability and transparency are preconditions for effective aid management.
2. **Ownership and inclusiveness:** As evidence shows, to manage aid effectively, partner countries need to be in the lead, with development partners providing capacity development upon request. Partner country-led processes will be particularly effective when including all relevant domestic stakeholders (parliament, civil society and the private sector) and international development partners that are active in the country.
3. **Enabling environment:** Partner country governments and providers of development assistance can jointly create an enabling environment for aid management composed of consistent national development strategies and concrete and results-based national development plans. Donor alignment is essential.
4. **Results-oriented coordination:** Aid coordination works best when it is country-led and linked to clearly defined results. The government and development partners need to focus on tangible outcomes (e.g., the increase and improvement of pooling arrangements and programme-based approaches, agreements on division of labour, filling of "funding gaps") instead of inputs and activities. Consequently, the quality of managing aid diversity at country level should be assessed through indicators that measure such achievements.

**Multilateral assistance** (BPd \$25b) is provided by a multitude of organisations with partially overlapping mandates, different governance arrangements and very diverse standards. Given this situation, the international community entered at Busan—after prior agreements in Paris and Accra—into far-reaching commitments on how to enhance the effectiveness of the multilateral system. The coherence of donor policies on multilateral institutions, global funds and programmes was to be improved. More effective use should be made of existing multilateral channels including a focus on good performers. Proliferation of multilateral channels should be curbed, inter alia, by agreeing on principles for guiding joint efforts in this area. Multilateral organisations committed to strengthen their participation in coordination and mutual accountability mechanisms at all levels.

The report outlines a series of emerging good practices that have good prospects to improve effectiveness and reduce proliferation of multilateral aid. These include the establishment of a policy consultation forum for donors (the Senior Level Donor Meeting on Multilateral Reform), joint donor assessments of multilateral organisations' performance via the Multilateral Organisation Performance Assessment Network (MOPAN), reform efforts undertaken by the World Bank and UN agencies, i.e., WB

trust fund reform, UN Delivering as One initiative, and funding reforms set out in the 2012 Quadrennial Comprehensive Policy Review (QCPR). Additionally, the Rwanda donor performance assessment is highlighted as an example for country-led coordination of (bilateral and) multilateral aid.

Despite these initiatives, progress in implementing BPD §25b has been slow and incremental. The reasons for the moderate progress include vested and heterogeneous interests of donor countries and multilateral organisations, donor focus on cost-efficient and well performing organisations caused by domestic pressure, rise of non-core contributions channelled through the multilateral system, and a lack of partner country involvement.

Against this background, the following key recommendations for a better coordination and reduced proliferation of multilateral aid are offered.

#### **Building Block Recommendations for Multilateral Aid**

1. **Principles on multilateral proliferation:** Busan signatories should continue to address the time-bound commitment in §25b of the BPD to agree on principles which guide joint efforts for reducing proliferation of multilateral aid. A concrete roadmap is needed.
2. **Coherent donor policies to address proliferation and fragmentation:** Providers of development assistance should act coherently when formulating policies and reform requirements for individual multilateral organisations, assessing the performance of multilateral organisations and deciding on core and non-core funding in view of providing multilateral organisations with a critical mass of core contributions.
3. **Implementation of reforms to reduce proliferation and fragmentation:** It is vital that multilateral organisations continue to implement structural and governance reforms as well as results-measuring frameworks and that they improve peer-learning among multilateral organisations on reforms. Moreover, multilateral organisations should participate in a differentiated way in country-level coordination and mutual accountability mechanisms.
4. **Stronger partner country engagement:** True behaviour change calls for partner country initiatives and country-led discussion on the effectiveness and the “effective use” of multilaterals. Partner countries have a key role to play in the on-going reforms and performance reviews. It is also vital that they pursue the establishment of fully functional mutual accountability mechanisms including a differentiated treatment of multilateral organisations and individual donor targets to induce behaviour change.

With regard to cross-country coordination and the issue of **potentially under-aided countries** (BPD §25c), development partners reconfirmed in Busan their commitments to accelerate efforts and to address the issue of countries that receive insufficient assistance. However, there is still no consensus on what is meant by ‘insufficient aid’, how it should be measured and what the term ‘aid orphan’ actually refers to.

While the OECD watch list which monitors potentially under-aided countries presents a useful basis for a common understanding of what insufficient aid means, further evidence should be gathered on countries on the watch list. Allocations of additional aid to the flagged countries should be based on case studies that identify specific causes and individual responses to a country's disproportionately low aid volume.

As illustrated with the examples of Bangladesh and Madagascar, there are many causes for insufficient aid receipts for some countries. A plethora of different approaches, goals and interests produces a complex pattern of aid allocation which benefits countries with relatively good institutions but also low-performing ones that have particular strategic importance for donors. The lesser attractiveness of some aid recipients in terms of performance and of strategic importance, combined with a general lack of coordination among donors, explains why some countries do not receive sufficient aid. Donor coordination in cross-country aid allocations is hampered by the fact that aid allocation is considered an area of sovereign decision making. The ultimate decision of a donor in selecting partner countries is political in nature.

Therefore the following recommendations should be considered by the international community.

#### **Building Block Recommendations for Addressing the Issue of Under-Aided Countries**

1. **Identification and monitoring of under-aided countries:** To fulfil commitment §25c of the Busan Partnership document, there is a need to agree on a methodology to identify potentially under-aided countries. The methodology developed by the OECD provides a good starting point. A systematic monitoring of potentially under-aided countries and discussion of the findings on a regular basis in view of designing a coordinated approach should be established, e.g., at the annual OECD-DAC Senior Level Meeting.
2. **Coordination of cross-country allocations:** Donors need to improve predictability and transparency in the process of aid allocation to enable donor coordination in cross-country allocations. To that end, it is important that all donors commit to publishing their forward spending plans as reported to the OECD.

Overall, the analysis conducted in this report shows clear links between the issue of aid diversity management, reduction of fragmentation and other topics of the aid effectiveness agenda. As evidence shows, **partner country ownership** is an indispensable prerequisite for improved aid diversity management at the country level, but also with regard to the coordination and optimal allocation of multilateral aid. The focus on **results** is essential in any coordination mechanism. Different stakeholders dealing with development (CSOs, Parliament, etc.) need to be **included** in order to make coordination effective. **Transparency and predictability** are major ingredients not only for in-country aid management but also for cross-country aid allocation and coordination as well as for more effective use of multilateral aid. **Efficient and effective institutions** are an important element in supporting a well-functioning in-country and global aid management system and in the alignment of aid to country systems.

The particular **spirit of Busan** with its aim to increase the level of **inclusiveness of development stakeholders** in development cooperation seems to be continued in various forms and is playing a particularly important role with regard to aid coordination. Bangladesh, for example, aims at further including civil society in its aid coordination mechanisms. Rwanda has—in the course of launching the second phase of its Economic Development and Poverty Reduction Strategy (EDPRS II, 2013-2018)—initiated a second phase of its Division of Labour process which aims at further including other stakeholders such as newly emerging donors.

Summing up, while coordinating aid at the different levels (in-country, cross-country, and multilateral) and including all development stakeholders consumes resources in the beginning, evidence shows that in the medium term, comprehensive and well-managed coordination approaches lead to a significant reduction of transaction costs for all parties. Therefore the Building Block supporters strongly encourage partner countries as well as bilateral and multilateral donors to continue their efforts to achieve a better aid coordination in an effort to improve the management of aid diversity.

The Building Block will support the international community by showcasing additional country and global coordination examples and making these cases available for mutual learning.

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## Annex

### Annex 1.1 Definition of Fragmentation and Concentration Ratio

OECD applies a methodology to define **significant** from **non-significant aid relations** in financial terms. An aid relationship is considered significant in financial terms if “the donor provides more than its global share of CPA to a country and/or is among the top donors that cumulatively provide 90% of the CPA to that partner country” (OECD 2011b, Annex B). The first part of this assessment attempts to define whether a relationship is concentrated from the donor’s point of view; the second part whether the relationship is considered important from the partner country’s point of view (OECD 2011b: 5–6). To help with the analysis, a concentration and fragmentation ratio is constructed based on the donor’s and partner’s point of view on whether a donor’s portfolio of aid programmes is concentrated or fragmented. From a donor’s point of view, it is the aim to have “a concentrated portfolio with significant partner country aid relations”, the “**concentration ratio** measures the number of donors’ significant aid relations compared to all of its aid relations. The higher the concentration ratio, the less a donor’s portfolio is fragmented”. At the same time, “from a partner country’s point of view, the aim is to maximise the number of significant donor relations and minimise the number of non-significant relations.” The respective “**fragmentation ratio** measures the number of non-significant donors compared to the overall number of donors. The lower the fragmentation ratio, the less fragmented are the donors’ aid programmes in that country” (OECD 2011b, 5–6). The fragmentation ratio is the inverse of the concentration ratio within a partner country (fragmentation ratio + concentration ratio = 1).

## Annex 1.2 Number of Donors and Aid Flows (% per donor) in Bangladesh, from 2007-2012

No. of donors and aid flows (% per donor) in Bangladesh on the basis of CPA data: disbursements, in constant 2010/2011 USD million

Key:  Blue applies to significant aid relations (i.e. where the donor provides more than its global share of CPA and/or is among the top donors that cumulatively provide 90% of the CPA to that partner country). Please note that the figures in the table refers to donor's share of CPA in each partner country.

Cells with data, but without highlighting, denote that the donor is in the last decile of donors to that country and the country is not an above-average partner for that donor.

Coverage: 24 Multilateral agencies and 23 DAC bilateral donors.

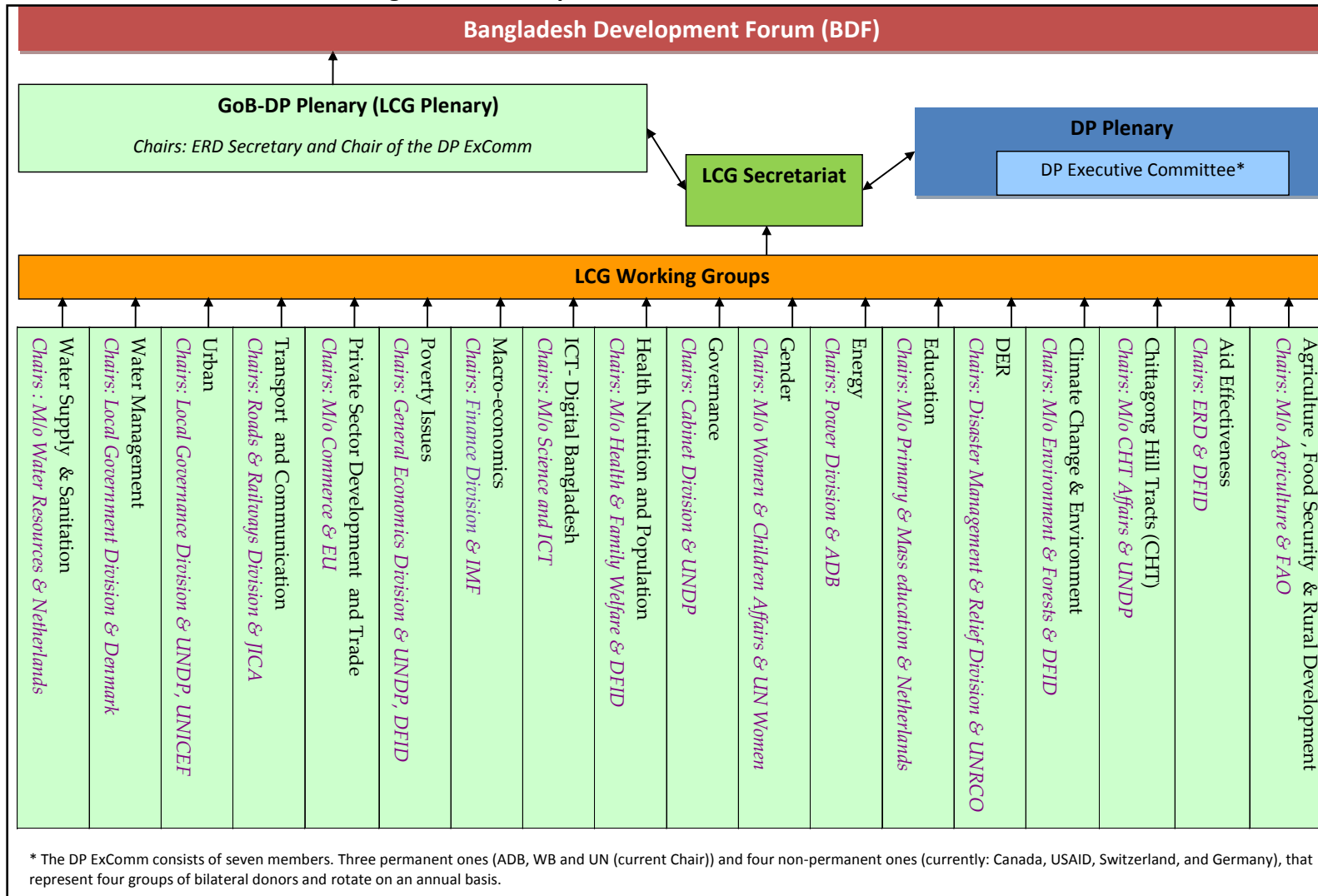
Bangladesh	Number of donors	Number of significant relations	Number of non-significant relations	Fragmentation ratio (in %)	CPA (USD mn.)	Average CPA per donor (USD mn.)	Donors																						
							Australia	Canada	Denmark	Finland	France	Germany	Ireland	Italy	Japan	Korea	Luxembourg	Netherlands	New Zealand	Norway	Spain	Sweden	Switzerland	United Kingdom	United States				
2007	31	17	14	45	1807	58	1.1	2.9	2.4	0.1	0.0	1.6	-	4.4	0.5	-	5.0	0.0	1.5	0.6	0.3	1.1	7.9	2.5					
2008	32	16	16	50	2312	72	0.8	3.3	1.8	0.1	0.0	2.1	0.2	6.3	0.4	-	3.3	-	1.1	0.2	1.3	0.7	9.2	2.1					
2009	29	21	8	28	1667	57	2.2	3.1	2.7	0.1	0.0	3.3	0.4	6.1	1.0	-	4.1	-	1.2	0.3	2.6	1.2	15.1	3.6					
2010	32	23	9	28	1800	56	2.2	2.9	4.5	0.1	0.1	2.9	0.3	6.7	3.1	0.0	4.2	-	0.2	0.3	1.9	1.0	12.5	3.7					
2011	34	26	8	24	1873	55	3.1	2.9	2.8	0.0	0.0	3.1	0.1	9.1	4.1	0.1	3.9	0.1	0.3	0.2	1.5	1.1	18.4	3.9					
2012	36	18	18	50	2761	77	3.7	1.0	2.3	0.0	0.0	2.5	0.1	16.2	1.8	0.0	2.5	0.0	0.2	0.0	1.4	1.0	10.9	5.0					

	Multilateral Agencies																			WHO	Grand Total		
	AsDF	BADEA	EU Institutions	GAVI	GEF	Global Fund	IADB	IAEA	IDA	IFAD	IMF (Concessional Trust Funds)	Isl.Dev Bank	Montreal Protocol	Nordic Dev.Fund	OFID	UNAIDS	UNDP	UNFPA	UNICEF			UNPFB	
2007	20.5	-	4.3	0.5	0.2	1.4	-	0.0	35.0	0.7	-	0.6	-	0.0	0.1	0.0	0.9	0.3	0.7	-	-	-	97.5
2008	-	20.7	-	4.0	1.2	0.0	1.4	-	0.0	34.8	-	0.5	-	0.1	0.0	0.0	0.2	0.3	0.9	-	-	-	97.9
2009	-	21.5	3.4	1.6	-	1.5	-	0.0	19.9	1.0	-	-	-	0.2	0.0	0.6	0.4	1.3	-	-	-	-	100.0
2010	-	15.9	6.9	2.9	0.1	2.3	-	0.1	19.6	1.4	1.5	-	0.3	0.7	0.0	0.7	0.4	1.3	-	-	-	-	100.0
2011	-	14.3	4.1	1.6	0.5	1.7	-	0.0	17.4	1.5	0.9	-	0.4	0.7	0.0	0.7	0.3	1.0	-	-	0.2	-	100.0
2012	13.2	-	2.8	1.0	0.1	1.1	-	0.0	25.0	1.0	5.2	0.3	13.2	-	0.3	0.5	0.2	0.5	-	-	0.1	-	100.0

Source: compiled from OECD (2013b)



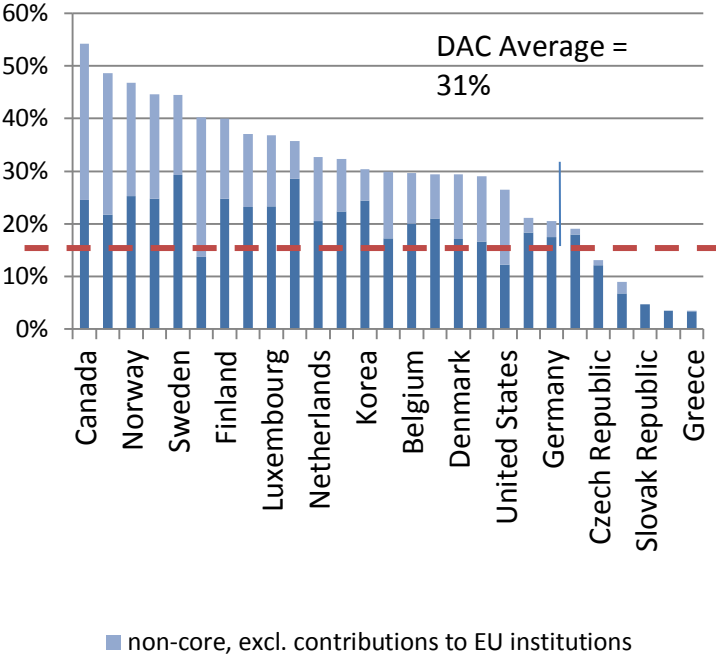
### Annex 1.3 Structure of the Bangladesh Development Forum



Source: LCG Bangladesh (2013b)

**Annex 2.1 Total Use of Multilateral System by Donors**

Significant differences exist in the funding pattern of donors for the multilateral development system. While some donors mainly provide core funding, others make large volumes of earmarked contributions, sometimes surpassing their core contributions to multilateral organisations.



Total use of the multilateral system as % gross ODA disbursements (2011) excluding debt relief and contributions to EU institutions

Source: OECD, 2013 Multilateral Aid Report, forthcoming.

### Annex 3.1 The OECD Watch List of ‘Potentially Under-Funded Countries’

The list was compiled on the basis of Country Programmable Aid (CPA) flows for 2011.

Country*	Equal aid per capita	UNDP's TRAC1 aid allocation	Poverty-efficient aid allocation	IDA's performance-based aid allocation	Number of benchmarks	Estimated average funding gap (USD billion)**	Actual aid volume (USD million)	Fragile state
<b>Madagascar</b>	X	X	X	X	4	885	395	X
<b>Malawi</b>	X	X	X	X	4	434	772	X
<b>Bangladesh</b>	X		X	X	3	3,190	2,222	X
<b>Gambia</b>	X	X	X		3	40	138	
<b>Guinea</b>	X	X	X		3	449	314	X
<b>Niger</b>	X	X		X	3	452	643	X
<b>Togo</b>	X	X	X		3	201	278	X
<b>Nepal</b>	X		X		2	427	1,001	X
CAR	X	X			2	38	263	X
Chad	X	X			2	75	507	X
Comoros	X	X			2	40	45	X
DRC	X	X			2	266	2,221	X
Eritrea	X	X			2	256	133	X
Guinea-Bissau	X	X			2	25	104	X
Zimbabwe	X	X			2	291	680	X
Burkina Faso			X	X	2	309	982	
Ethiopia			X	X	2	988	3,483	X
Senegal			X	X	2	1	1,007	
Tanzania			X	X	2	315	2,406	
Uganda			X	X	2	733	1,533	X
11 countries**	3	4	4	0	1	-		6
Total: 31 countries	18	17	16	9	-	-		22

\* Countries in bold are considered under-aided according to both performance-and needs-based approaches.

\*\* The funding gap is an average of the four different funding gaps (actual aid received minus the aid volume a country should receive according to each different allocation formula).

\*\*\* These countries are: Benin, Burundi, Djibouti, Kenya, Laos, Myanmar, Sierra Leone, Somalia, Tajikistan, Yemen, and Zambia (underlined countries are also fragile states)

Source: Author's own table based on augmented OECD (2013d, 10)

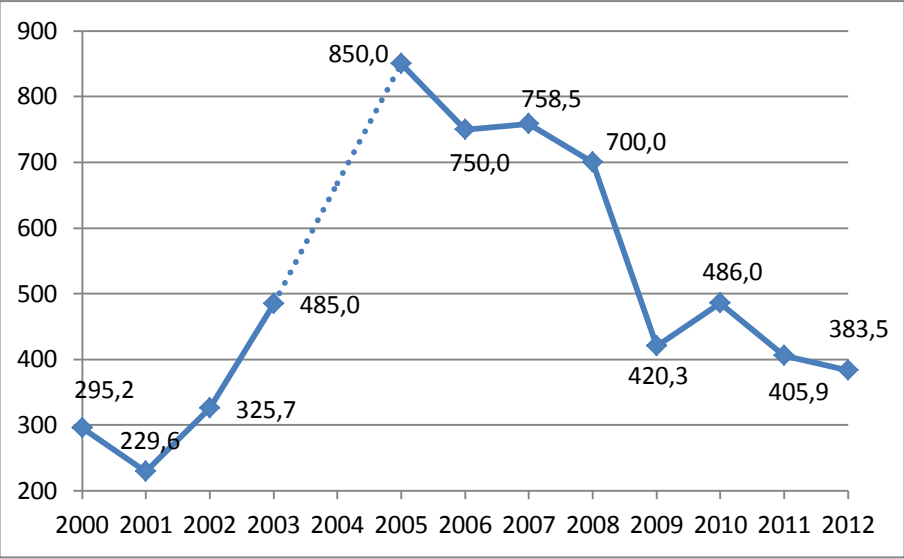
**Annex 3.2 Bilateral vs. Multilateral Donors' Engagement in Under-Aided Countries  
(Country Programmable Aid, 2010 disbursements)**

Country	Equal aid per capita	UNDP's TRAC1 aid allocation	Poverty-efficient aid allocation	IDA's performance-based aid allocation	Number of benchmarks	Share of aid received by multilateral institutions*	engaged (bilateral/multilateral)**
Madagascar	X	X	X	X	4	60.0	12/13
Malawi	X	X	X	X	4	53.3	14/15
Bangladesh	X		X	X	3	61.5	18/16
Gambia	X	X	X		3	76.2	6/15
Guinea	X	X	X		3	74.7	10/14
Niger	X	X		X	3	67.1	17/15
Togo	X	X	X		3	83.4	10/14
Nepal	X		X		2	55.2	18/17
CAR	X	X			2	82.9	14/15
Chad	X	X			2	75	507
Comoros	X	X			2	70.7	3/12
DRC	X	X			2	70.9	20/15
Eritrea	X	X			2	89.1	10/12
Guinea-Bissau	X	X			2	73.2	9/12
Zimbabwe	X	X			2	54.8	21/14
Burkina Faso			X	X	2	62.3	16/16
Ethiopia			X	X	2	64.0	21/17
Senegal			X	X	2	50.0	17/17
Tanzania			X	X	2	47.7	16/17
Uganda			X	X	2	47.1	20/17
11 countries**	3	4	4	0	1	-	
Total: 31 countries	18	17	16	9	-	-	

\*26 multilateral agencies are covered; \*\*only DAC donors are covered

Source: author's own table based on OECD (2013d, 10) and OECD (2012d)

**Annex 3.3 ODA to Madagascar (2000-2012)**



Source: AMP Madagascar

## **Annex 4 List of Organisations and People Interviewed for the Report**

### **People Interviewed in Bangladesh for Case Studies in Part I and III**

- Ministry of Finance, Government of Bangladesh: Arastoo Khan (Additional Secretary, Economic Relations Division)
- Embassy of Germany: Johannes Schneider and Roswitha Amels (Head and Deputy Head of Development Cooperation)
- European Union, Delegation to Bangladesh: Stephanie Rousseau (Coordination & Aid Effectiveness)
- Embassy of Canada: Nicolas Simard (Deputy Director)
- Embassy of the Netherlands: Carel Richter (Deputy Head of Mission)
- DFID/UK: Luke Bailey (Head of Policy Coordination and Corporate Business,)
- Centre for Policy Dialogue: Fahmida Khatun (Research Director,)
- Royal Danish Embassy: Mogens Strunge Larsen and Wahida Musarrat Anita (Head of Cooperation; Programme Officer)
- U.S. Agency for International Development: Todd Andrews and Lindsey Moore (Deputy Programme Office Director; Economist)
- UNDP: K.A.M. Morshed (Assistant Country Director,)
- Embassy of Japan: Masayuki Taga and Akemi Nagashima (Counsellor for Development Cooperation and Economic Affairs; Coordinator for Economic Cooperation)
- Embassy of Sweden: Karolina Hulterström (First Secretary, Development Cooperation)
- Aid Effectiveness Unit, Economic Relations Division, Ministry of Finance, Government of Bangladesh: Monowar Ahmed (Joint Secretary), Rafique Ahmed Siddique (Deputy Chief), Md. Sahadul Islam (Additional Secretary)
- World Bank (Permanent Member of DP Executive Committee of the Local Consultative Group): Farhana Ahmnad (Operations Officer, Country Management Unit), Bushra Binte Alam (Senior Health Specialist), Jörg Nadoll (Senior Public Sector Specialist), Mark Ellery (Water & Sanitation Specialist), Mirza Nadia Bashnin (Operations Analyst), Sayeeda Salim Tauhid (Senior Monitoring and Evaluation Specialist)
- Asian Development Bank (Permanent Member of DP Executive Committee of the Local Consultative Group): M.G. Mortaza (Economist), Sujatha Viswanathan (Economist), Mohammad Zahid Hossain (Principal Country Economist), Rudi Louis Van Dael (Senior Social Sector Specialist), Hongliang Yang (Senior Climate Change Specialist)

### **People Interviewed for Part II:**

- BMZ/Germany: Rachel Folz, Julia Lehmann, Jürgen Zattler
- OECD: Suzanne Steensen, Fredrik Ericsson, Piera Tortora
- Uganda: Fred Twesiime, BGD: Monowar Ahmed, Rafique Siddique
- DFID/UK: Sarah Boulton, Rachel Arundale, Karen Parsons
- DEVCO/EU: Comission: Jost Kadel
- UN DESA: Thomas Boehler, UNDG: Marco Baumann

### **People Interviewed in Rwanda for Part I**

- Ministry of Finance and Economic Planning, Government of Rwanda: Ronald Nkusi, Director, External Finance Unit

### **People Interviewed in Madagascar for Case Study in Part III**

- Ministry of Economic Affairs and Industry, Government of Madagascar: General Director, Director of Planification, Director of External Cooperation
- African Development Bank (AfDB): Jean-Marie Vianey Dabire, Economist
- EU: Charlotte Adriaen, Head of Department (governance, economics, Commerce and social sectors)
- GIZ: Helmut Burmeister, Resident Director; Alan Walsh, Head Coordinator for the environmental programme
- Ministry of Finance: Government of Madagascar: Jean Razafindravonona, General Director of Budget
- Agence Française de Développement (AFD): Patricia Aubras, Assistant Director
- Civil society platform: (PFNOSCM): Naivosoa Andriamitandrina
- JICA: Hajime Watanabe, First assistant of the resident representative; Voahary Rakotovelomanantsoa, Head of Programme ; Manoela Razafimahefa, Head of Programme
- University of Antananarivo: Prof. Hery Ramiarison, Economics department: Faculty of Law, Economics, Administration and Sociology
- Embassy of Norway: Janne M. Knutrud
- Embassy of the United Kingdom: Daniel Andriamanjaka, Chief of staff
- Helvetas: Nicolette Matthijsen, Programme Director; Julia Randimbisoa, Assistant Director
- Embassy of France SCAC Cultural and Cooperation Service: Sebastien Vittet; Quentin Gouzien; Philippe Georgeais
- USAID: Miriam J. Onivogui, Deputy Director, Programme Office; Cathy Jane Bowes, MPH, Director, Programme Officer

### **People Interviewed at Donor Headquarters for Part III:**

- Ministry of Foreign Affairs of France: Ludovic Signarbieux
- Ministry of Foreign Affairs of Poland: Marta Wytrykowska, Specialist Development Cooperation
- EU Directorate General for Development and Cooperation (DEVCO): Nicoletta Merlo, Deputy Head of Unit: Policy and Coherence
- Ministry of Foreign Affairs of Finland: Timo Olkkonen, Head of Unit, Department for Development Policy, Unit for General Development Policy and Planning
- German Federal Ministry for Economic Cooperation and Development (BMZ): Ronald Meyer, Head of Division: Policies Regarding Cooperation with Countries and Regions