

Workshop on global aid allocation patterns and cross country division of labour: addressing fragmentation and aid orphans

Chair's and DAC Secretariat's Summary

Revisions as of 19 February, incorporating comments from participants.

On December 1st 2009, a workshop on global aid allocation patterns and cross country division of labour, addressing fragmentation and aid orphans, was held as a side session to the Working Party on Aid Effectiveness plenary in Paris. The workshop was organised by the DAC Secretariat and the co-chairs of the Task Team on Division of Labour and Complementarity under the Working Party / Cluster C. The list of participants is attached.

Mandate from the international aid effectiveness process

It is important to begin with the wording of AAA on fragmentation and countries receiving insufficient aid:

- 1) "...reduce the fragmentation of aid by improving the complementarity of donors' efforts and the division of labour among countries and across countries",
- 2) "We will work to address the issue of countries that receive insufficient aid."
- 3) "donors will respect developing countries' priorities, ensuring that new arrangements on the division of labour will not result in individual developing countries receiving less aid."
- 4) "start a dialogue on international division of labour across countries by June 2009".

This workshop demonstrated that the dialogue had been launched, and it considered the topics identified in the above points.

Findings from research

Two complementary studies were presented in the first part of the program: a more quantitative analysis undertaken by the DAC Secretariat and a more qualitative study of four donors by DIE/FRIDE.

According to the analysis prepared by the DAC Secretariat, there is evidence that DAC donors' fragmentation has slightly increased since 2004. In addition there are many new actors contributing to development which further increase the diversity and fragmentation of efforts.

According to the presented analysis, there are a large number of donor-country relations that are "not significant" in financial terms from the point of view of either the donor or partner country. These 'non-significant' relations could be the first entry point for reducing fragmentation and dividing labour across

countries. The authors recommended that this could be done with an eye to increasing resources to under-aided countries.

In a separate paper, qualitative analysis shows that donors have a wide variety of criteria for the selection of partner countries and, in turn, donors by partner countries, as well as for allocation of aid across selected countries. More transparency and dialogue on these criteria can help to build confidence for collective action, while recognising the commitment to reduce fragmentation in spite of each having its own criteria.

Following the discussion of cross-country allocation, fragmentation and division of labor, a second session to consider analysis of over- and under-aided countries took place. Two papers were presented: one on under-aided countries and the responsibility for smoothing aid distribution, and the other from an analysis of the special situation of states in fragile situations.

In the first presentation, the DAC Secretariat pointed out that there is no agreement on what criteria should be used to determine which countries are under-aided. Differing criteria – all based on variants of need and performance – lead to variations in lists of under-aided countries. According to ongoing work of the World Bank, the amount that would be needed to be redistributed - or added from new funding - would be \$3-\$12 billion (compared to a preliminary estimate of \$84 billion of overall country programmable aid, or CPA, in 2008).

A second presentation by the DAC Secretariat supporting INCAF asserted that fragile states require special treatment, as they do not fit well into a standard efficiency model. Where there are major turn-arounds, the central issues are stability, along with security, peace building and governance, only some of which can be supported with ODA. Fragile states need this mixed package of types of assistance. Aid is needed for a sustained period of time and with increased predictability and reduced volatility. In those cases, past performance cannot be used as a proxy for the expected effectiveness of aid. Dealing with fragile states requires policy coherence to address security and other issues, including financial support for security, which is not eligible as ODA.

Discussion

Most multilaterals have global or regional mandates and so have limits to concentrate geographically, although they can participate in efforts to reduce in-country fragmentation. So the challenge is greatest for bilateral donors. The Secretariat's analysis indicates the share of total aid in the highly fragmented, "non-significant" aid relations is only 4%, making any reallocation of these resources less disruptive, at least in financial terms.

The Moderator noted that major multilateral funds could play a balancing role in addressing issues of underfunding if they change their allocation systems.

The Chair set the tone for the discussion by identifying issues for further dialogue:

- The need for champions of this debate

- Governance issues – how can collective decisions be reached; what are the right fora and mechanisms?
- What does the group want to achieve by the time of the HLF4?
- The need for more to step forward and deepen the analytical work and extend it to new actors, new purposes of aid and partner-country points of view.

There was broad acknowledgement by participants of the need to pursue this kind of analysis, while some advocated for the need to move forward with action where possible. One participant referred to the research results as “a wake-up call” for action .

The increasing diversity of aid actors was noted. Also, increased emphasis is being given in aid flows to global public goods and related issues such as adaptation to climate change, security, and state fragility.

Partner countries have a lead role on addressing in-country fragmentation. but it should be a joint effort. Cambodia and Ghana were among the countries cited for good practice in leadership on in-country division of labour. Ghana pointed out that division of labour should be a partnership effort, led by the partner country but with consultation among donors as well. Ghana’s plan for aid management includes holding donors accountable, including on their commitments for division of labour.

It seems appropriate that donors take the lead on cross-country fragmentation and cross-country allocations. At the same time, it is important that partner-country views are duly taken into account. A menu of options for action should be identified shortly.

Some participants indicated reasons explaining the existence of fragmented aid flows. For example, there are trade and political reasons for donors and partner countries to want to keep small amounts of aid; and there are the special situations of small-volume donors and partner countries. There is also a need to clarify methodological issues related to the inclusion of aid flows in country programmable aid that are channeled through NGOs

It is important to show examples of good practice, by both partner countries and donors, as well as statistical analysis.

Some participants noted that, regarding under-funded countries, donor allocation systems do not take much account of aid from other donors in determining their own allocations. In any such consideration of other contributions, it is also important to bring in emerging donors, new private actors, global funds and programmes in their different forms.

Modalities like sector wide approaches, programme-based approaches and budget support may help to reduce aid fragmentation at country level, across countries and increase commitments and disbursements for aid orphans and fragile states. Comparative advantage is also potentially an important principle in reducing fragmentation. However, there is a danger that self assessments could end up increasing rather than reducing fragmentation.

It was suggested that donors could consider how to get the issues of fragmentation and under-aided countries reflected in objectives and incentives for senior management.

Future analytical work

The studies presented give a strong starting base for immediate action to address the fragmentation issue, and further technical work will contribute to extend it, within the framework of WP-EFF. Some participants identified areas of work that, in their view, might be helpful. One possible area of work could be theoretical future threshold levels on the “broad” and “narrow” concentration ratios for each DAC member, as developed by the Secretariat. Another could be to further develop a broadly accepted menu of options for reducing fragmentation ratios, taking account also of relevant qualitative issues. Another possible area of work could be additional sensitivity analysis to a range of endogenous and exogenous factors. A deepening of the qualitative work, perhaps collecting criteria for all donors that have formal, public criteria, could also be undertaken.

Further technical work could also be done to assess concepts, tools or methodologies for establishing which countries are under-aided and by how much, which might provide a basis for developing consensus on this issue. It would be helpful to bring together respected experts to help to arrive at a consensus.

Opportunities for the WP-EFF, the DAC and the events leading up to HLF4

The forward indications on aid flows now being collected by the DAC are important for future allocations, although coverage is not complete. An issue that remains to be tackled is confidentiality, although this is not the only, and perhaps not the binding constraint to providing forward indications. It is important for both donors and partners to work to progressively reduce or remove the constraints.

There is recognition that allocation issues are highly political. The Chair proposed that a step-wise approach to building a set of principles in time for the HLF4 be considered. There are some interim steps that can be considered, such as mobilising to prevent a precipitous drop-off in aid to states in fragile situations. The Secretariat’s annual survey of patterns of assistance, recent and projected, can help identify these cases as well as to spot undesirable sharp reductions in assistance.

In mobilising political support, AAA commitments should be emphasised to top civil servants, heads of agencies and ministers. There are a number of relevant fora which may provide opportunities for carrying forward the fragmentation and allocation agendas:

- the Working Party on Aid Effectiveness (Cluster C, Task Team on Division of Labour and Complementarity and the Partner Country Caucus),
- high level event on Global Aid Architecture in Seoul,
- regional meetings on Aid Effectiveness implementation and preparation for HLF4,

- the DAC's Senior and High Level Meeting, DAC meetings of directors for country and regional assistance, and group of aid allocation specialists, as well as the "Tidewater" meeting convened by the DAC chair,
- the Development Cooperation Forum,
- the boards of key multilaterals,
- the European Union.

The Chair stressed the importance of an incremental approach – finding points of commonality and building on those. This method might help to arrive at a set of agreed principles that can be approved in time for the HLF4.

Ultimately action on in-country division of labour referred to in the AAA has to happen at the country level, but partner countries have limited influence on donor inter-country allocations. However, for cross-country division of labour, governance issues, the issue of the fora for and objectives and principles are all part of the dialogue that is now underway. By the time of HLF4, the WP-EFF collectively needs to have made progress on both cross-country division of labour and on addressing the issue of countries that receive insufficient aid.

Champions and continued support to deepen the analysis are needed from all WP-EFF members, including members not present in the workshop.

Finally, thanks are due to Suzanne Steensen, Sven Grimm, Andrew Rogerson and Ben Dickinson for excellent presentations, to Paul Isenman for moderating and to everyone present for their active participation and specific suggestions.