



**The Climate Justice Dialogue:  
Lessons for the Climate Regime from  
Aid Arrangements**



# The Climate Justice Workshop Group

## The Report

This report is the culmination of a research project undertaken for the World Resources Institute (WRI) for the Spring 2013 Workshop in Applied Earth Systems Management, by students in the Master of Public Administration Program in Environmental Science and Policy at Columbia University's School of International and Public Affairs.

WRI presented us with the following research question: What lessons about operationalizing and applying equity and common but differentiated responsibilities and respective capabilities (CBDR-RC) can the climate regime learn from aid arrangements?

## The Team

Gillian Duggin (Manager), Alona Gutman (Deputy Manager), Jacqueline Geaney (Editor), Pablo Antón Díaz, Yang Guo, Hanna Helsing, Katherine Hoffmaster, Olivia Kemp, Xuan Li, Annlyn Mc Phie, Leeann Sinpatanasakul

## Faculty Advisor

Professor Kathleen Callahan

## Acknowledgements

We would like to express our gratitude to our client contacts at the World Resources Institute, Wendi Bevins and Paul Joffe, for their support and guidance in developing the scope of our research and for offering many valuable suggestions throughout the course of the project. We would also like to sincerely thank all the interviewees who took the time to meet with our team members and provide their expert advice and insights into the complex world of aid and development assistance.

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## EXECUTIVE SUMMARY

This report explores the application of equity in the aid sector in order to identify potential lessons for the international climate change regime under the United Nations Framework Convention on Climate Change (UNFCCC). Equity is conceptualized in two parts - fairness in the process of aid allocation, and the overall effectiveness of aid funds -with the recognition that both are required in order to achieve equitable aid distribution.

Since the effective use of funding is the second essential component of equity, the Paris Declaration on Aid Effectiveness (Paris Declaration) served as a critical research component. This Declaration, adopted at a meeting convened by the Organization for Economic Co-operation and Development (OECD) in 2005, is widely viewed as a manual for achieving effective outcomes in the aid sector. It serves as a roadmap to help aid organizations maximize their effectiveness, highlighting five key principles for organizations to pursue: ownership, alignment, harmonization, managing for results, and mutual accountability.

Using this fairness-effectiveness concept of equity as a guideline, research for this report considered nine different aid organizations and institutions that were divided into three broad categories: Multilateral Financing Institutions (MFIs), other Multilateral Institutions (MIs), and National Aid Agencies (NAAs). The research considered each organization in depth, examining their approaches and strategies, as well as how they balance their own interests with those of the aid recipients. Materials produced by the organizations themselves were examined in detail, together with specific case studies, third-party critical analyses, and interviews with individuals involved in the aid sector.

These detailed studies revealed a few overarching themes and technical lessons that may be drawn from the aid regime, and are set out in this report. Key differences between multilateral and national aid agencies were identified, although all organizations were found to partially align with the Paris Principles. Many organizations struggled to find a balance between being too rigid or too flexible in their decision mechanisms, for example their aid allocation formulas and criteria for graduation policies. The most equitable aid allocation methods balanced the use of quantitative formulas, which are more rigid, objective, and transparent, with qualitative measures expressed through a range of criteria, which are flexible but more subjective. This attempt to achieve balance was also observed in donor-recipient partnerships, management strategies, the use of conditions attached to aid (conditionality), and private sector funding mechanisms. In addition, some examples stood out as strategies that may increase aid effectiveness and therefore equity: the sub-national or regional approach to aid allocation, which recognizes and addresses income disparity within nations, and the resilience agenda, which promotes aid effectiveness through long-term planning and capacity building.

The report concludes with some findings on how these lessons might apply to the climate regime. Potential lessons for the climate regime from the aid sector include the following:

- Incorporation of the Paris Principles, with their emphasis on partnership and alignment, could shift the climate discussion away from a culture of recrimination and toward one of balanced responsibilities.
- Complex formulas for funding allocation that weigh a recipient's relative economic development with other factors that affect need, in this case climate vulnerability, offer useful approaches that could be adapted for climate adaptation funding.
- Through eligibility, graduation and transition policies, the aid sector accounts for recipients in economic transition and at different stages of economic growth, and evaluates recipients at a sub-national level, which is especially applicable to the climate regime since vulnerability varies greatly within nations.
- Assessments and evaluative tools employed by the aid sector would be valuable to the climate sector by promoting collaboration and better identifying the most suitable target programs and projects for adaptation financing and technology transfer.
- In addition to these positive findings, the aid sector demonstrates the dangers associated with loans and tied aid, which are suitable only for certain types of development projects and may not be appropriate for climate financing.
- Finally, the aid sector highlights the importance of leveraging private sector engagement with caution, ensuring that adequate attention is given to incorporating appropriate criteria in project and partner selection, such that overarching climate objectives will be adhered to.

# 1. INTRODUCTION

This report examines equity approaches within the well-established aid sector in order to draw instructive lessons for the climate regime. The agreement of the Durban Platform in 2011 under the United Nations Framework Convention on Climate Change (UNFCCC) process has opened a ‘window of opportunity’ within the negotiations for greater discussion on equity issues in the lead-up to the UNFCCC’s 2015 Conference of the Parties. These negotiations provide a forum for organizations like the World Resources Institute (WRI) and the Mary Robinson Foundation on Climate Justice (MRFJ) to facilitate dialogue and potentially offer new perspectives and approaches to the traditional interpretations of equity and ‘common but differentiated responsibilities and respective capabilities’.

The text of the UNFCCC delineates parties as ‘developed’ and ‘developing’ countries, affording them ‘common but differentiated roles and responsibilities and respective capabilities’ (CBDR-RC) (BASIC experts 2011). The concept of equity and CBDR-RC under the UNFCCC has generally been interpreted to mean that developed countries with stronger economies should make a greater contribution to climate change mitigation, as well as supporting adaptation actions (BASIC experts 2011). Developed nations have historical responsibility for greater fossil fuel emissions and are less vulnerable to the impacts of climate change, while developing nations, especially least developed nations and small island

states, have little historic responsibility for emissions, and are highly vulnerable (Ahmad et al. 2009). Another component of the climate justice discussion surrounds whether developing countries should have an inherent “right to develop” and industrialize the way successful economies have, without the costs of low-carbon energy and the burdens of climate-change adaptation (Sachs 2012). However, the changing circumstances of many countries, including the emergence of previously developing countries towards middle-income status, such as China, India and Brazil, in combination with the high emissions associated with this growth, generates disagreement as to the relevance of the traditional interpretations of equity and CBDR-RC, and the historical ‘split’ between developed and developing nations (Sachs 2012). The disagreements between major economic powers such as the USA and China have contributed to delaying the progress of the negotiations (Ahmad et al. 2009).

In order to contribute new ideas to the current debate on equity in the UNFCCC, this report identifies potential lessons drawn from the aid sector that may be instructive. By examining the approaches taken by a variety of both bilateral and multilateral organizations to operationalize and apply their own interpretations of equity, and by considering their successes and failures in doing so, relevant lessons for the international climate change regime may be found.

## 2. RESEARCH METHODOLOGY

In this report, equity is conceptualized first in terms of fairness in the processes associated with aid allocations, and second as the overall effectiveness of aid funds. The Paris Declaration on Aid Effectiveness (Paris Declaration), with its five main principles – ownership, alignment, harmonization, managing for results, and mutual accountability – was therefore integral to this research and served as the starting point for research into institutions that give aid (Harmer and Basu-Ray 2009). While the Paris Declaration does not explicitly refer to ‘equity’, the principles contribute to equitable aid allocation by promoting fairness throughout the procedural elements of distributing aid, as well as increased overall aid effectiveness (Aid Effectiveness Portal 2008).

Guided by the overarching institutional categories identified by WRI, potential institutions for detailed evaluation were broken into three categories, from which the following organizations were selected:

- 1) **Multilateral financing institutions:** the World Bank, two regional development banks (the Asian Development Bank and the Inter-American Development Bank), and the International Finance Corporation (IFC);
- 2) **Other multilateral institutions:** the European Union’s Cohesion Policy and the United Nations Development Program (UNDP); and
- 3) **National aid agencies:** the United Kingdom’s Department for International Development (DFID), the Swedish International

Development Cooperation Agency (Sida), and the United States Agency for International Development (USAID).

After undertaking a preliminary review of potential options, the final organizations were selected based on their prominence within the aid sector, and their ability to showcase different approaches within the three categories. Each organization’s structure and approach to giving aid was examined, with a particular focus on how they operationalize and apply equity. This involved looking at various components, including types of assistance offered, conditions and obligations, graduation policies, allocation methods, use of formulas and criteria, transparency, and monitoring and reporting.

A summary of the research for each institution is set out in the Appendix of this report. Through this detailed study, examples of approaches to operationalize and apply equity were identified, as well as lessons from the successes and failures of these organizations. The main body of this report synthesizes these lessons, drawing connections between organizations and highlighting unique features of certain organizations that could potentially offer useful lessons, and that might be replicated by other sectors such as the international climate regime. Finally, the report offers some findings on how these lessons may be applicable for the future interpretation and application of equity and CBDR-RC in the UNFCCC regime and related negotiations.



## 3. EQUITY IN THE AID SECTOR

### 3.1 Equity: Fairness & Effectiveness

The general concept of equity is based on the idea of just and fair treatment for all people. In the aid (or development assistance) sector, the World Bank has identified that 'equity' is based on achieving two main principles: equal opportunity for all people, and avoidance of absolute deprivation. In an equitable society, an individual's status should reflect his or her effort and ability, based on fair competition as well as equal opportunity (Jones 2009). Aid or development assistance therefore involves building endowments of skills, capital, infrastructure, knowledge, and ideas for all countries, in order to put these principles in practice (World Bank 2005).

### 3.2 Paris Declaration on Aid Effectiveness

Aid effectiveness has, in recent years, become a central framework for guiding how the aid sector operationalizes equity. In 2005, the Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development (OECD) convened the Second High Level Forum on Aid Effectiveness in Paris (Harmer and Basu-Ray 2009; OECD 2011). At this forum, the DAC's 24

Building on this, effectiveness is also a necessary component to achieve equity in aid distribution. The principle of effectiveness indicates that aid should be allocated in such a way as to contribute successfully to the attainment of its goals. Tying that in with the concept of fairness, this means that aid should be targeted where it has the higher probability of reaching those with the most limited opportunities. The concept of transparency signifies that the main rules of allocation should be clear and available to anybody since they reflect the policy of the international community (Guillaumont 2008). Operationalization indicates the manner in which equity is put into practice, and results achieved through such practices.

member nations, all of which are developed countries, agreed to the Paris Declaration. This Declaration serves as a blueprint to harmonize aid and by achieving enhanced partnership between donors and recipients, while at the same time scaling up private sector involvement (OECD 2011). It lays out an action-oriented 'roadmap' to improve the quality of aid and its impact on development, through the elaboration of the five principles of the Paris Declaration, as follows:



***Ownership:*** refers to the capacity of the recipient government to articulate its own development plans and priorities according to its national agenda. There needs to be mutual understanding on this principle between the two countries (donor and recipient), in order to guarantee an equitable and successful implementation process (Harmer and Basu-Ray 2009).

***Alignment:*** requires donors to align themselves with the partner country's policies and procedures on aid delivery. Donors should also tailor their assistance to fit the partner's priorities, work within country financial offices to disburse aid, and undertake capacity-building initiatives where needed in order to strengthen the partners system (Harmer and Basu-Ray 2009).

***Harmonization:*** aims to ensure effective coordination of the donor's activities so that it aligns with the partner government systems. It encourages "common arrangements for planning, funding and disbursement, monitoring and evaluation, and reporting to governments on donor activities" (Harmer and Basu-Ray 2009).

***Managing for Results:*** facilitates measuring progress on the development goals and targets set, by encouraging donors to improve the statistical and analytical capacities of partner countries. By enhancing these tools in partner countries, donors are better able to understand results from the implementation and progress of their development goals (Harmer and Basu-Ray 2009).

***Mutual accountability:*** aims for donors and partner countries to be accountable to each other, as well as accountable to their own citizens (Harmer and Basu-Ray 2009). This principle requires consistency in reporting on the allocation path of funds, the progress of projects on which funds were spent, and targets that were met through the use of funds.

The OECD reconvened in Accra in 2008 to assess the achievements of the Paris Declaration, and scale up ambitions towards milestones that had not yet been accomplished, which resulted in the Accra Agenda for Action (OECD 2011). At this meeting, participating nations also recognized the challenges associated with implementing the Paris Declaration, in particular deciding who should receive aid (OECD 2011). The OECD noted that the process itself was tainted by a lack of accountability and transparency on the part of both donors and recipients, and most of all fairness (equity).

The OECD's 2011 evaluation of progress at the next meeting in Busan (2011) identified some limitations in assessing progress, given that not all donors abided by the same rules and the principles of the aid declarations were not applied in a uniform manner (OECD 2011). Parties considered meeting the effectiveness principles essential for tackling emerging global challenges, notably climate change and the energy crisis, as well as meeting the Millennium Development Goals. The Busan meeting

called for deeper partnerships, and significant changes to the international governance of the aid system (OECD 2011). This aid effectiveness agenda will no doubt continue to evolve, with OECD members and external stakeholders

remaining committed to the Paris Declaration, despite its identified weaknesses (Glennie 2011; Aid Effectiveness Portal 2008).



## 4. PRELIMINARY DISCUSSION AND ISSUES

### 4.1 Challenges to Identifying Lessons from the Aid Sector

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The aid sector is very complex, making it difficult for third-party evaluators and aid organizations themselves to quantify the success of their aid programs. This presented a challenge for this research, given that the definition of equity within the sector relies largely on considerations of aid effectiveness. Funding from aid organizations constitutes just one of many factors that affect the development of nations that receive aid, including political changes, social movements, the global economy, and trade, amongst others. Moreover, aid can have economic impacts that are difficult to measure. One way researchers evaluate aid effectiveness is through the use of econometric tools, but this poses various methodological challenges. For instance, in a 2009 report on the effectiveness of the EU Cohesion Policy, researchers pointed to the subjectivity of econometric models and the lag effect of different investments as research obstacles (Wostner and Slander 2009). Internal and third-party evaluations were considered in the research for this report, although for the purposes of this research it is important to acknowledge the potential for subjectivity and other limitations of these evaluations such as limited access to data.

Information access also proved to be a significant research challenge, given the

political nature of many of the organizations studied and their sensitivity to confidentiality. Though there has been a concerted shift in the aid sector towards transparency, a great deal of decision-making still takes place with limited transparency. Much information remains unavailable to the public, or unattainable due to bureaucratic processes. For many aid organizations, including those this report considered, members of the public relations divisions were the only employees accessible for interviews, and these employees were unlikely to have detailed knowledge of aid allocation nor be willing to provide details beyond what was already published. Even where staff interviews could be obtained, current employees may be reluctant to criticize the organization. Addressing this bias could be achieved through interviews with individuals more removed from the organization, such as former employees and non-governmental organizations, although challenges here extended to the time constraints on availability.

Finally, drawing out lessons from the wide variety of organizations considered also proved challenging. The research did not uncover any particular organization that was unequivocally successful in applying 'equity', and given that there is no binding international legal framework or specific model to

guide aid organizations (beyond the Paris Declaration), the lessons we identified are thematically based. Organizations differed in terms of their motivation and goals, funding mechanisms, and allocation methods. They also exercised varying levels of control or influence on recipients, and faced different constraints and

challenges. The results section of this report offers examples of particular practices that are potentially more equitable than others, reasons why particular approaches have not always succeeded, and common issues affecting the donor-recipient relationship.

## 4.2 Cross-cutting Trends in Research: Evidence of the Paris Declaration in the Aid Sector

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Within all of the organizations researched, there was a noticeable alignment with the principles of the Paris Declaration. However, this alignment was always not a direct result of the Paris Declaration. For instance, in the case of Sida, ownership was already a key theme in their approach to development and aid, with Sweden placing increasing responsibility on developing countries to drive their own development (SADEV 2010). The incorporation of these themes into Sida's approach preceded the Paris Declaration, and at the same time was influenced by the aid effectiveness process (SADEV 2010). USAID operations reflect some principles of the Paris Declaration, even though their motivation to do so was largely budgetary (USAID 2012). USAID underwent major reform in 2010 in response to the financial crisis, setting a goal of increased efficiency. This moved the organization to align itself with the values of partnership, for example through its Joint Planning Cell promoting partnerships, as well as greater transparency achievement through use of the Millennium Challenge Corporation grants (USAID 2012).

Other organizations, like UNDP and DFID, have directly expressed their goals of pursuing the Paris Declaration. UNDP has employed internal measures to assess its adherence to these principles through its "Implementing the PD" surveys in 2006, 2008, and 2011, reporting general success in 2011 (UNDP 2011). DFID reports on aid effectiveness annually and shows commitment to the principles of the Paris Declaration in various ways. Its decentralized framework, with country offices that maintain a high level of independence, demonstrates its commitment to harmonization, country ownership, and alignment (Wood 2008). In pursuit of mutual accountability and transparency, it has created the International Aid Transparency Initiative (IATI) to ensure aid information and donor information is accessible, comparable, accurate and timely (DFID 2012). The development banks also reference the Paris Declaration, with the Asian Development Bank pursuing the principles of alignment through its Country Partnership Strategies to determine which projects will be funded and implemented in particular countries. In addition, the Inter-American Development Bank's Aid for Trade Program is implemented according to the Paris Declaration (IDB 2013). For example, it works to strengthen local

ownership and accountability, through the use of a monitoring and evaluation framework (IDB and WTO 2009).

Though the Paris Declaration principles have been incorporated by the organizations examined in this report, it is difficult to state that the Paris Declaration has been an unequivocal success. The Paris Declaration has certainly shifted the narrative within the aid sector towards improving aid effectiveness (OECD 2011). It has also generated substantive changes in operational policies for both multilateral and national institutions, including their own evaluation mechanisms of their

effectiveness. However, implementation of the principles themselves has not always been consistently achieved and remains criticized (Glennie 2011). Perhaps one of the main inadequacies that can be identified in terms of achieving more concrete and identifiable progress has been the fact that it lacks a specific, quantitative and formulaic approach for producing a system for fair allocations of funding (Gore interview 2013).

### 4.3 Differences Between Multilaterals and National Aid Agencies

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Though organizations differed greatly within as well as across categories, some differentiating trends were identified between multilateral and national organizations. Multilateral organizations tend to employ more rigid, formulaic mechanisms based on principles and specific criteria to determine grant allocation and lending (ADB 1998). This is in contrast to the national aid agencies, which publicize more loosely defined funding guidelines, but ultimately make decisions more subjectively and with less transparency, incorporating geopolitical considerations (USAID staff interview; Sida staff interview). For example, policies guiding graduation of individual nations from receiving aid or into different categories of aid, are determined by explicit rules and categories in the multilateral agencies, but on a more ad hoc basis by the national aid agencies (ADB 1998; DFID 2011a; Sida 2010). Both of these methods have strengths and weaknesses. While a category method ensures

consistency and should enable more objective application, its success also depends on the ability of the approach to fully account for the many complex factors that affect the financial need and vulnerability of a recipient country. Similarly, determining graduation on an ad hoc basis allows for flexibility to account for particular circumstances, but at the risk of more subjective and less transparent decision-making, the potential for unfair bias, and the possibility of failing to delineate any coherent graduation policy at all.

The national or multilateral composition of each organization directly impacts the way it operates. Multilateral organizations have highly bureaucratic structures to incorporate all member states, while national aid agencies do not need such complex bureaucracies, but are guided by geopolitical considerations. A positive aspect of the national aid agencies' governance is that their relative independence is more conducive

to flexibility in decision-making and their operations, as well as developing strong partnerships with individual recipient countries. On the other hand, the multitude of countries comprising multilateral agencies serves a positive purpose by working to balance the member nations' individual interests, and generating greater impetus and pressure for transparency. This is in contrast with national aid agencies, which, while flexible, can also be

constrained by their domestic politics. The influence of domestic geopolitical concerns can also result in less transparency within national aid agencies. Though recent years have shown some national aid agencies move towards transparency, for example in Sida's new aid information transparency initiatives, areas for considerable improvement clearly remain (OECD 2011).

#### 4.4 Finding a Balance Between Flexibility and Rigidity

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Finally, it was evident that many of the organizations appeared to struggle with balancing the rigidity and flexibility of tools used to evaluate recipient nations, allocate funding, and determine eligibility criteria. The World Bank, for instance, tries to strike a balance between "predictability and responsiveness" by increasing the scope of its aid allocation metrics to include vulnerability (World Bank 2011). Striking a balance was also a key issue for Sida in terms of conditionality and holding recipient nations accountable (Sida staff interview 2013). The challenges associated with this 'balancing act' are

clearly reflected in how organizations make decisions about aid allocations. Rigid quantitative formulas have the positive benefits of enforcing consistency and maintaining objectivity. They are predictable and transparent, but they can also be limiting and overlook nuanced circumstances, which can be critical in the context of aid and development. Flexible methods can account for more qualitative factors, such as nations in transition, crisis, and conflict. On the other hand, approaches to allocation can also be overly subjective, ambiguous, and hard to apply in practice.



## 5. LESSONS AND CONCLUSIONS FROM THE AID SECTOR

The following sub-sections identify and detail themes, as well as resulting lessons and conclusions, that can be drawn from the review of the individual multilateral and national organizations. These themes include: allocation formulas and criteria; eligibility, graduation, and transition policies; sub-national (or regional) aid allocation

approaches; the resilience agenda; partnerships and other coordination mechanisms; results-based management; conditionality; private-sector involvement; loans or grants; and financing mechanism failures.

### 5.1 ALLOCATION FORMULAS AND CRITERIA

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Using formulas and criteria for allocating aid funds is an approach that may be considered equitable, as it is both transparent and relatively objective. However, while taking a formulaic approach can be considered very equitable in terms of process, the outcomes also need to be equitable. Striking a balance between factors such as flexibility and predictability, and adequately incorporating need and vulnerability concerns into such formulas and criteria, is thus essential. The multilateral banks offer examples of the use of formulas and criteria for categorizing recipient countries that promote relatively transparent and objective resource allocation and decision-making processes (AusAid 2012). The World Bank provides a good example of the application of formulas and associated criteria in practice, but also demonstrates how these formulas

do not always result in equitable outcomes. For its grants and loans to the poorer countries, the World Bank utilizes a Performance Based Allocation equation that considers Country Performance Ratings (CPR) balanced against population and GNI per capita (World Bank 2013a; World Bank 2013e). The CPR component is complemented by a diagnostic exercise that evaluates the 'creditworthiness' of countries based on their internal policies and characteristics, known as the Country Policy and Institutional Assessment (CPIA) (World Bank 2013; World Bank 2009). As interpretations of country status and data are complicated and frequently difficult to replicate, the application of the World Bank's policy has the potential to generate inequitable outcomes.

In contrast to the approach of the multilateral banks, the EU Cohesion

Policy relies solely on GDP per capita to determine funding allocation, without considering more varied social or political aspects (World Bank 2009; EC 2011). This approach serves as a simple, objective way to rank regions in terms of need and also establishes a built-in graduation policy, with each grouping entitled to increasing aid. The benefits of this method are its objective application and the equity intrinsic to the ultimate goal for the countries and regions in need, which is that they will eventually match the economy of the strongest EU regions (EC 2011). However, GDP is the only factor considered, and this removes some flexibility in application. Applying the same baseline average technique to other factors in addition to GDP, such as income distribution and social mobility, or accounting for factors such as geographic vulnerability could improve this process.

National aid agencies have adopted the use of allocation criteria to an extent. A relatively unique example is USAID's Millennium Challenge Corporation, which establishes three categories for country eligibility; 'ruling justly,' 'economic freedom' and 'investment in people,' (Millennium Challenge Corporation 2013). These categories contain seventeen indicators based on criteria set by the World Bank Institute, Freedom House, UNESCO, WHO and IFAD/IFC. A country is considered eligible for grants if its score on the indicators is greater than the median score of its 'peer group' (Millennium Challenge Corporation, 2013). Another example is DFID's use of a 'need-effectiveness' approach. Assessment under this approach is conducted based on: (1) the number of people living under \$2 a day; (2) the UN's Human Development Index; and (3) a measure of the country's fragility (DFID 2011). This approach also incorporates

the World Bank's CPIA. DFID's approach demonstrates a more equitable method, taking into account vulnerability by looking at the fragility of countries, in addition to need and effectiveness (DFID 2011).

Overall, allocation formulas and criteria offer a relatively successful approach for identifying eligibility and allocating aid in an equitable manner. When utilized by multilateral agencies, they provide a more predictable, transparent and objective methodology for determining allocations amongst countries, especially in comparison to the more opaque and geopolitically oriented approaches of the national aid agencies. However, the application of these approaches must find a balance between flexibility and predictability in both process and outcomes, in order to account for vulnerabilities and needs in specific circumstances. Thus, criteria and formulas need to incorporate more flexible qualitative as well as quantitative indicators.

As a complementary approach to assessing aid allocations, various institutions also use diagnostic assessment tools to identify and evaluate country-specific allocation needs and priorities. A variety of countries assessment 'evaluative tools' are used that are oriented towards partnership and country ownership. Examples include the World Bank's and regional banks' Country Partner Strategies, the UNDP's Common Country Assessments, as well as on ground coordination and harmonization strategies such as multi-donor trust funds and donor coordinating bodies, which are used by multiple agencies (World Bank 2013a; United Nations 2004). National aid agencies also utilize country evaluations and strategy documents. In the case of



Sida, each country strategy identifies the goals for aid, the alignment with national priorities, and proposed collaboration with other donors (Sida 2013). For example, Sida's Tanzania country strategy highlights the Tanzanian Government's existing 'Joint Assistance Strategy', and reflects that Tanzania requested more aid in the form of budget support and better aid effectiveness in cooperation, thus facilitating Sweden's

focus on these components (Regeringskansliet 2006). Using improved tools to diagnose where the actual need exists at the country level enables a more equitable approach for aid allocation, and allows aid to be more representative of each country's development needs.

## 5.2 ELIGIBILITY, GRADUATION AND TRANSITION POLICIES

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When they are well-designed and applied effectively, eligibility, graduation and transition policies, whereby countries are graduated from receiving aid completely, or are shifted to new categories of differing aid eligibility, can offer more nuanced and flexible approaches to aid allocation. When added to formula criteria, tiered categories whereby countries move up (or down) to new categories of differing aid eligibility, can better take into account varying country circumstances. An example is the use of graduation tiers by the World Bank and the Asian Development Bank (ADB). The ADB has a formal graduation policy, with countries falling under three tiers, with a final tier for countries who have graduated from receiving assistance (ADB 1998). Once a recipient country no longer meets the criteria set by the ADB for grants, the graduation process begins, transitioning through specific levels and then finally, graduation from regular aid assistance altogether (ADB 1998). Like the ADB, the World Bank incorporates multiple tiers, acknowledging a variety of income groups (World Bank 2013a). Therefore, some middle-income countries are still eligible for aid. The most recent member states to receive grants were Afghanistan and Timor-Leste,

both of which are now in the graduation process from grants to low-interest loans (ADB 2012; ADB 2011). The Least Developed Country categorization, which applies across the entire United Nations system, provides another example of a graduation policy (see box).

The Inter-American Development Bank (IDB) offers another approach for transitioning regions. While it does not have a formal graduation policy based on specific GNI per capita level, it does informally assess graduation between its four tiers, similar to the ADB (ADB 1998). Within both the ADB and IDB graduation policies, each country receives the level of aid appropriate for its stage of development, according to the tiered systems (IDB Board of Governors 2010). Not all recipient countries have the ability to take on market-rate loans, or even low-interest loans, which is reflected in the use of a tiered approach. These policies aim to take into account the various needs of each country and address them equitably. They are also generally supported due to the transparent nature of this approach (AusAid 2012). For example, several independent studies have rated the ADB positively in the area of transparency on

the basis of its graduation policy, as it is based on two clear and published results: GNI levels per capita, and an annual country assessment that takes into account a variety of economic, political, and social factors (AusAid 2012).

In contrast to the multilateral banks, national aid agencies do not generally apply clear graduation policies, as their assistance operates at significantly varying levels. Sida, for example, bases its transitions of types of assistance on economic maturity, a process which then leads to shifting into new types of

assistance programs (Sida staff interview 2013). Examples include shifting from development activities, into those that facilitate a better environment for private sector growth (Sida staff interview 2013). DFID states that it develops plans for those countries graduating (DFID 2012). However, as its recent decision to cease aid to India indicates, decisions on graduation are not made in a transparent manner and appear to be guided significantly by domestic political considerations, in addition to the graduating country's economic circumstances (DFID 2009; DFID 2013).

### Case Study: UNDESA and the Maldives

The United Nations Department of Economic and Social Affairs (UNDESA) has a graduation policy for Least Developed Countries (LDCs), a category that is widely used by many aid organizations. UNDESA weights three variables to calculate a development score: (1) GNI per capita, (2) the Human Asset Index (HAI), and (3), an Economic Vulnerability Index (EVI), to determine when a country is ready to graduate (CDP 2008). This methodology implies that economic growth equals an improved standard of living in these nations. However, there are problems associated with the use of GNI as the sole measure of a country's economic development status. For example, differences in domestic purchasing power and cost of living may cause GNI to be misleading, and it does not take into account subsistence living (Green and Smith 2002). Paradoxically, sudden negative events such as earthquakes may even increase country GNI, in which case living in the country is a very different experience than the economic indicators would imply (Green and Smith

2002). A specific example is the Maldives, which officially graduated from the LDC categorization in 2011. The graduation process involved an extended transition period after the major tsunami in 2004 had resulted in a moratorium (CDP 2012). Justification from UNDESA for the graduation of Maldives included high measures of GNI per capita and HAI, even though it had a high EVI score (CDP 2012). Although the immediate impact of the tsunami was incorporated into the extension of its transition, the Maldives argued that overall impacts resulting from the country's status as a small island state were not emphasized strongly enough; with the Maldives resisting graduation on this basis, the process took a number of years (Government of Maldives 2009). This indicates the need for an effective transition strategy when graduating nations that may be subject to volatile conditions, as well as a more flexible set of indicators that better measure political stability, institutional features, and geographical vulnerability.

### 5.3 SUB-NATIONAL AID ALLOCATION APPROACHES

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Sub-national and regional allocation approaches offer one of the best ways to optimally account for vulnerability, transcend debates about national sovereignty, and focus on recipient needs. The sub-national approach can be considered equitable, as it targets areas that are in the most need of aid assistance rather than considering only the national GNI, which may conceal considerable regional development disparities. The EU is an example of a body that evaluates recipients at the sub-national level, as opposed to at the country level (EC 2011). This factor is critical because it accounts for local disparities within nations, as even developed countries with strong economies have regions that are underdeveloped. For instance, both Spain and Italy contain regions that, based on GDP, fall into the EU's high-need category (EC 2011). The poor in these regions would be overlooked if recipients were evaluated at the national level (EC 2013g; EuroStat 2013). This orients aid towards becoming more need-based, focusing on where aid can be most effective. Poland, for example, has a low GDP at the national level, but as of 2013 contains one region with a mid-level GDP according to EU's standards. This region receives less aid, which frees up funds for other locations

that have higher needs for funding (EC 2011).

The World Bank is commencing a process of 'geo-coding' its portfolio of projects in an effort to better identify more localized areas in need and identify if its projects are effectively targeting areas that need poverty reduction (World Bank 2012). While still in an early stage of development, the use of approaches that employ such technology and data sets could foreseeably complement sub-national or regional efforts by facilitating accurate identification of need (Fox and Rieffel 2012). The Joint Planning Cell approach taken by USAID jointly with the EU offers another approach to regional selection and prioritization of needs (USAID staff interview). The mechanism employed by this approach involves a detailed analysis on what the drivers of change are in a region, and how to prioritize new investments. Criteria for prioritization include vulnerability, acute malnutrition, population density, USAID presence, policies supporting resilience, as well as security and accessibility (USAID staff interview). Geographic targeting regarding these priority areas demonstrates an increasing trend of regional-orientated approaches to aid to better capture need and operate more economically.

### 5.4 RESILIENCE AGENDA

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Resilience is an increasingly used concept that international aid agencies are adopting to better prepare systems to cope with shocks. USAID defines resilience as: *"the ability of people,*

*households, communities, countries, and systems to mitigate, adapt to, and recover from shocks and stresses in a manner that reduces chronic vulnerability and facilitates inclusive growth"* (USAID 2012). This

represents a growing trend to make aid assistance go further and contribute to longer-term, more lasting results, through multi-layered and better-integrated programs. This is also reflective of a more cost-effective approach to foreign assistance, given a strained global economic environment. Humanitarian relief and recovery programs are no longer developed as stand-alone projects, with an agenda focused on completion, but instead are designed more as a platform for new development investments to be built upon, with the assumption that they will grow and continue (USAID 2012). In Kenya, USAID economic growth investments in arid lands have been integrated and layered on top of existing UN World Food Programme projects with sequenced investments to build on the

original three-year recovery program in this region (USAID, 2012).

Sida offers another example of the resilience agenda. The agency focuses on building capacity among national actors to enhance management of risks. In addition, Sida has built a network of partners that could be mobilized if risks from natural hazards receive increased focus in the future (Christoplos 2012). A critical weakness that has been identified is that resilience has no determined standards or criteria in Sida's context, and thus cannot be effectively incorporated into programming checklists. In that sense, there is a need for improvement in integrating risk in overall programming methods (Christoplos 2012).

## 5.5 PARTNERSHIPS AND OTHER COORDINATION MECHANISMS

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Partnerships and coordination mechanisms serve as a way to achieve more targeted and efficient results, particularly in the context of reduced or limited funding. They are increasingly being utilized to better align needs and interests, both amongst donors themselves (as with USAID's resilience agenda), as well as between donors and the private sector. The majority of the donor institutions surveyed in this report emphasized partnerships and collaboration as key to managing relationships with recipients. Partnerships can operate as a way to promote mutual accountability, by placing increased responsibility on recipient governments for their own development priorities and implementation. There is clearly a growing trend in the aid sector for more

integrated approaches and combining of donor resources to achieve more lasting results in development.

One example of a partnership approach is the UN Development Assistance Framework (UNDAF), which establishes partnership arrangements between a host country government and UN system agencies (UNDP 2009). The UNDAF sets out three to five outcomes, those are to be aligned with national priorities and goals. UNDP is the main agency within this process, and collaborates with national and international development partners to assist governments in using different instruments in this task (United Nations 2004). All of UNDP's programming instruments require the active participation of multiple stakeholders, most importantly national

counterparts, and are flexible to align with national planning cycles (United Nations 2004). Similarly, The World Bank emphasizes the use of partnerships when developing their Country Assistance Strategies (CAS) and Poverty Reduction Strategy Papers (PRSPs). Both the CAS and PRSPs involve the recipient countries and local stakeholders in long-term planning to promote mutual accountability, ownership, responsibility, transparency and capacity building (World Bank 2013a).

Another example is Sida's partner-driven cooperation strategy, in which Sida focuses on mutual interests for cooperation, driven by shared responsibility and ownership of administration and financing. Partners can include government authorities, trade unions, private companies, NGOs, and universities, among others. The support given by Sida aims to be catalytic, with cooperation self-supporting in the long term (Sida 2013). From an equity perspective, this form of aid facilitates the involvement of other parts of a society in development cooperation and can be seen as a more participatory approach. It also facilitates knowledge sharing that can benefit all stakeholders, contributing to a more

equitable foundation of collaboration on similar terms.

Coordination between development actors offers another platform to observe lessons on partnerships. The Joint Planning Cell (JPC) approach allows several development actors, including the EU and USAID, to work together in a more integrated way to better layer and sequence humanitarian assistance, with the shared goal of building resilience (USAID 2012). Evaluation is emphasized through this approach, as is integration with the wider donor community's goals, specifically the EU donors and external coordination mechanisms. The first projects using this approach were hailed as a success by development actors and led to the formation of new alliances between EU Commission in Brussels, UN agencies, regional institutions, and humanitarian and development aid organizations, through the Global Alliance for Resilience Initiative-Sahel (Lindborg 2012). This highlights the tendency in the aid sector for more integrated approaches and the 'pooling-together' of resources in a strained global economic environment, which may also generate more effective results due to this increased coordination.

## 5.6 RESULTS-BASED MANAGEMENT

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As one of the principles of the Paris Declaration, results-based management is linked with equitable outcomes through aid effectiveness, and is incorporated into some of the formulas discussed above. Results-based management may be utilized when a donor organization makes decisions about resource allocation, as well as during ongoing evaluations (Harmer and

Basu-Ray 2009). The development sector has strongly emphasized this agenda for results, in line with the Paris Declaration. With the outcomes of traditional forms of development cooperation increasingly being questioned, results requirements are being used more often as conditions for funding: in other words, without clear results, there may be no funding and no collaboration (Vähämäki et al. 2011).

Both multilateral and national aid organizations are moving towards results-based approaches for assessing the effectiveness of their operations. However, it appears from the review of the multilateral and bilateral organizations considered in this report that there is no coherent approach to managing for results in development. There exists a conflict for aid agencies in their dual objective of supporting partner/recipient country results-management systems while simultaneously needing to improve their own (Vähämäki et al. 2011). Results-based management approaches have traditionally focused more on internal results and the performance of agencies than on changes of the development conditions on the ground. This demonstrates the need for clear definition of objectives at the beginning of the process to design any results-based management strategies. For example, UNDP's 'managing for development results' framework applies the basic concepts of results-based management, but focuses on the recipient country's processes and achieving results from UNDP's assistance, rather than on UNDP's own processes (UNDP 2013).

While in principle the push for results appears equitable, aid organizations must proceed with caution when using results-based management strategies. Sida for example takes a relatively flexible approach, establishing conditions for the release of funds, and utilizing ongoing dialogue to monitor progress, and identify and resolve problems. It focuses on working in partnership with the recipient country to achieve results. This also ensures results processes are linked to other Paris Declaration principles, including mutual

responsibility (Sida staff interview 2013). The World Bank applies results-based management through a planning strategy called the 'Results Based Country Assistance Strategy' (CAS) and through a financing platform called Program-for-Results (P4R) (World Bank-Poverty Net 2011). The CAS and P4R were both launched in the past ten years in order to better develop and maintain long-term results through partnership and structure. Rwanda is one example where CAS was arguably unsuccessful for 2009-2012, as according to Human Rights Watch it failed to adequately incorporate human rights concerns in its institutional assessment (Evans 2012).

Introducing new management perspectives in recipient countries can also be challenging and may require a 'culture shift.' This is especially true when donor country governments or multilateral agencies drive the agenda, with low demand for such results-oriented management in the recipient countries. Additionally, too much pressure for results can lead managers to look away from the overall outcome, and focus more on what is easily measurable (Vähämäki et al. 2011). Results-based systems are effectively a way of indirectly imposing conditionality, which may be necessary in circumstances where institutions and frameworks are weak or absent. However, the particular challenges of imposing these requirements on recipient countries must be acknowledged. As such, adequate support, resources, and capacity building must be provided to ensure the recipient country can deliver requested results, be accountable, and meet the conditions (or guiding principles) imposed by a donor (Vähämäki et al. 2011). Sida's more nuanced approach that bases performance and results on a mixed

method of conditionality, collaboration and dialogue is perhaps a good balance to drive effective results-based management (Sida staff interview 2013).

Overall, for a results-based framework to successfully apply equity, it needs to be carefully planned with objectives identified from the start. Additionally, it should balance and respect the needs of

both donors and recipients, by imposing appropriate transparency and accountability mechanisms on both parties. Clarity on whether the results-based systems are addressed to both results and process, and whether both parties mutually agree upon the relevant objectives and indicators, will also be fundamental.



## 5.7 CONDITIONALITY AND TIED AID

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The use of conditionality through partnership strategies, results-based management (as discussed above) and more flexible mechanisms such as donor-recipient dialogue and coordination, can be an effective way to generate greater mutual accountability, as well as greater recipient ownership and collaboration. However, it is important to use caution when applying conditionality, as such methods can fail to consider relevant vulnerabilities of recipient countries and detract from alignment, harmonization

and ownership principles, if applied inflexibly.

Conditions are frequent requirements both for the granting of loans, or the release of tranches of funds. Both multilateral and national organizations demonstrate conditionality through the use of evaluative tools. For example, the multilateral banks require alignment with Country Assistance Strategies to qualify for project level funding (ADB 2008; World Bank 2013f). In addition, by

utilizing results-oriented management systems and monitoring at the project level, national and multilateral institutions are imposing a form of conditionality.

Conditionality provides both positive and negative outcomes. If too rigid, the use of such approaches may create an unbalanced relationship between a donor and recipient. Yet if implemented with appropriate attention to the principles of ownership and partnership, where there is genuine participation and consultation of recipient government officials in identifying priorities, as well as appropriate flexibility when applying criteria, conditionality can be a positive way to enable 'mutual accountability'. Sida's approach to managing grants in this way provides an example (Sida staff interview 2013).

Tied aid refers to aid that must be used in a specific way, for example be spent in the donor country. In contrast, untied aid has no such limitations. The untying of aid, which is exemplified by USAID, is indicative of a broader shift in perspective relating to conditionality,

linked to the Paris Declaration (USAID staff interview 2013).

Increasingly, the stated focus of aid programs is on capacity building, as well as effectiveness and results. Rather than being driven by the short-term self-interest of tied aid, donors benefit through access to new markets as well as the existence of more stable regions due to reduced poverty and conflict. For example, in the case of the EU, this longer-term approach to self-interest is instrumental in how the institution effectively operates, with countries that fund but do not necessarily receive substantial monetary benefits instead receiving less direct benefits such as greater access to markets and increased regional stability (Rogers 2012).

Overall, the shift away from tied aid towards more nuanced conceptions of long-term partnerships and indirect mutual benefits from increasing aid effectiveness has been a successful way to promote mutual accountability, and to leverage conceptions of self-interest that incentivize and promote improved collaboration.

## 5.8 PRIVATE SECTOR INVOLVEMENT

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Private sector involvement is becoming increasingly important in the aid sector, offering opportunities for efficiency and innovation. While all organizations examined in this report identified some level of involvement of the private sector, the IFC and the national aid agencies in particular illustrate lessons learned from an equity perspective. Engaging the private sector requires a cautious approach to ensure that the overarching goals of aid are not

overlooked. Promoting private sector investment for poverty reduction can be seen as a fair way to give effective aid, as it may lead to more effective aid delivery and outcomes. However, it should not be ignored that the private sector's orientation towards profit has the potential to result in profits for the private sector but not tangible or effective poverty reduction, leading to an inequitable outcome.



For example, while all countries are eligible for IFC finance, the fact that least developed countries have in reality been granted the least amount of funding underlines that private sector investment models do not always ensure that those most in need of financing will be able to obtain it (IEG 2011). Similar concerns exist for the national aid agencies' operationalization of equity through the private sector. Both Sida and DFID take an approach to the private sector that is heavily focused on partnership. In Sida's Business for Development program, investment costs are shared between Sida and its private sector partner (Sida 2013). Thus, co-financed projects can help to lower the risk threshold for investments in developing countries. This approach reflects the desire for mutual benefits and risk-sharing options, and may contribute to more equitable distribution of investments across sectors, while also taking advantage of private sector efficiency and innovation.

However, from an equity perspective, evaluating projects thoroughly is important to ensure that projects are benefitting people equitably and are contributing to poverty reduction (Sida 2013). Therefore, both multilateral and national institutions need to balance the benefits of private sector engagement, while safeguarding the ability of under-represented or vulnerable nations to access private sector investment. Therefore, a can be lesson drawn that when involving the private sector in aid, it will be critical to implement guiding frameworks and strategies that include robust transparency and accountability mechanisms. Utilizing existing tools such as country alignment strategies and results-based systems to establish objectives and targets can ensure that private sector projects are appropriately selected and aligned with the development goals already in place.

## 5.9 LOANS VS. GRANTS

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The use of loans as a financing instrument may generate inequitable results, particularly when compared to the use of grants, as arguably loans do not represent the same level of fairness when balancing donor and recipient needs, particularly where recipients are more vulnerable. An example is the case of Grenada's loan repayments to the World Bank following Hurricane Ivan in 2004 (McPhie interview 2013). In this case, Grenada defaulted on its liabilities, succumbed to tax levies, and faced disqualification from future World Bank financing due to inappropriate loans being granted (Black Voice News 2013). Grenada, a small island state, found

itself at the mercy of predetermined loan terms that did not take vulnerability into consideration, and also placed the donor in a difficult situation, as the World Bank still had the responsibility to enforce its loan repayment schedules (World Bank 2013b). This case demonstrates the difficulty of balancing the needs of both donors and recipients and highlights the need for greater partnership and more emphasis on mutual accountability when utilizing loans as a tool for assistance (McPhie interview 2013).

While grants are used often by national aid agencies, particularly USAID, they are generally only utilized by multilateral

banks in situations where countries may be in extreme situations that prevent them from meeting payment schedules, such as disasters or extreme poverty events. Financing institutions such as the ADB generally operate in this manner, offering grants only to countries under extreme circumstances, such as political or military turmoil (ADB 2008). These grant recipient countries then enter the graduation process and transition to low-interest loans after a period of post-crisis years. There is a need for caution in such approaches, to ensure loans are allocated equitably and that countries are not transitioned to loans too quickly, to avoid cases such as Grenada and the

World Bank. Performance-based loans aim to improve the transparency of loan tools and are increasingly being adopted by the World Bank (through its PBA formula) and the ADB (World Bank 2011). However, the Inter-American Development Bank, which also uses performance-based loans, found in a review that such loans increased transaction costs, and more effort was spent controlling expenditures than achieving the overarching goal of the project (ADB 2013c). Again, caution is needed when applying these approaches and country-specific indicators of repayment ability should be carefully assessed.



## 5.10 FINANCING MECHANISM FAILURES

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Despite the gains of the Paris Declaration, it must be acknowledged that it does not include a binding framework of aid allocation between countries. The absence of a coherent

allocation framework represents a relative failure of the aid effectiveness agenda (Gore interview 2013). There is no binding and equitable framework in

place for collecting or distributing funds in the medium and long-term.

With this lack of a binding framework, recipient countries suffer because there is limited funding predictability from bilateral organizations, and funds can shift depending on sector-based trends in aid. Moreover, the current frameworks in place for the national aid agencies are inconsistent and driven by geopolitical interests. For example, USAID has a foreign assistance mandate largely driven by its own national interests rather than poverty alleviation (USAID 2013; USAID staff interview).

. Similarly, Sida allocates aid based on political decisions made by the Swedish Government (Sida 2013). This enables rapid changes of direction in funding, which makes it difficult for developing countries to efficiently plan for long-term development. While country strategies and similar tools work to address these challenges, they are not necessarily oriented to the long term.

The multilateral institutions are to some extent constrained by how much national government members decide to contribute, as voluntary donations are a key source of funding. Tied allocations and earmarking of voluntary non-core funding by national governments to multilateral institutions such as the UNDP for certain projects or sectors also demonstrates an example of the ongoing failure to fully incorporate equitable approaches across the aid sector (UNDP 2011). Thus, projects carried out by the multilaterals, including the World Bank and UNDP, are subject to variability, as

funding is not always predictable (UNDP 2009). Multilaterals' long-term development planning will continue to suffer from this lack of predictable funding (UNDP 2013).

Limited predictability of funding due to the absence of binding requirements on the resource generation side is an obstacle to applying equity, as it is difficult to fully balance the needs of both donors and recipients. While addressing long-term funding is particularly intractable at the national level due to the politicization of aid, there are potential solutions at the multilateral level, linked to the Paris Declaration principles of alignment, harmonization and ownership. Identified approaches to ameliorate or reduce this 'failure' within the aid sector include convening multi-donor coordination bodies and multi-donor trust funds, which many donors are now using (UNDP 2009). Other options include eliminating earmarked funding to multi-lateral bodies such as UNDP to generate greater funding security for recipient nations and facilitate long-term planning at the domestic level (UNDP 2009). These solutions offer improved approaches to generating and allocating funding because they enable the institutions to make allocations based on the identified needs of recipient countries, rather than the demands of contributors, although they still fail to provide complete long-term predictability. It is possible that only a binding framework would fully meet this challenge.



## 6. FINDINGS: POTENTIAL LESSONS FOR THE CLIMATE REGIME

Based on the themes and lessons identified and discussed above, the following findings may be relevant and applicable for operationalizing and applying equity in the climate regime:

- **Adopting lessons from the use of the Paris Declaration by the aid sector for application to the climate regime offers guidance on how to move the dialogue on equity and CBDR-RC forward.** As demonstrated by the use of the Paris Declaration principles, a shift away from a culture of recrimination and toward one of balanced responsibilities would benefit the climate debate. This would inject concepts of partnership, ownership and harmonization into the debate, promoting a transition from differentiation to mutually beneficial cooperation. It is recognized that the Paris Declaration needs further strengthening through more formulaic approaches to delivering aid; and if this were to occur it would simultaneously have a positive impact within the climate regime, given the close relationship between the two.
- **Establishing an eligibility and allocation framework for the UNFCCC Green Climate Fund and the UNFCCC Technology Mechanism could be informed by the aid sector's existing formulas.** This could include eligibility, graduation and transition tiers, which could be particularly effective for the climate sector. The incorporation of climate vulnerability and risk assessments would further strengthen this. This may also provide increased predictability and transparency in decision-making regarding climate finance, as well as improved targeting of funds to the most vulnerable countries or regions. The inclusion of eligibility and graduation tiers would enable changing country circumstances to be taken into account, and may shift the UNFCCC's current focus on the dichotomy of developing versus developed countries, to reflect the more nuanced realities of different country circumstances. However, building on examples used by the aid sector, a flexible approach is needed that incorporates qualitative criteria, particularly vulnerability assessments, which should enhance the overall effectiveness of climate financing. Moreover, the analysis in this report has shown that the Paris Declaration's lack of a binding allocation framework is a constraint on the aid sector that leads to inequity, and thus provides an important lesson for the climate regime to incorporate a binding allocation framework for climate financing.
- **Developing a sub-national or regional approach to finance, where both contributions and allocations are determined on the basis of ability to pay and**

**vulnerability to climate change, offers a useful lesson for climate financing.** This could instigate a shift in current discussions on historical responsibility and CBDR-RC towards a more productive discussion that focuses on vulnerability beyond national borders, particularly regarding adaptation financing. Examples of collaborative approaches as well as diagnostic tools (such as geo-coding) detailed in this report may be of guidance for identifying regional or sub-national needs for the climate regime.

- **Learning from the failings of loans and tied aid in financing.** These forms of financing should not be replicated within the climate regime without careful consideration. Vulnerability should be assessed accurately and taken into account in decision-making if loans are to be contemplated as a means for financing adaptation. Tied aid is generally an inappropriate model for all assistance, including for climate financing. The move away from tied aid towards collaboration and partnerships has highlighted that it is possible to re-align incentives between donors and recipients, and better identify interests that can be leveraged to promote mutually beneficial outcomes and collaboration. The climate regime could learn from these findings, taking into account the greater costs associated with inaction.
- **Assessing needs through the use of diagnostic/evaluative tools could be replicated within the climate regime.** Transferring these methodologies and approaches to the climate regime could improve identification of recipient country needs, including sub-national needs, for climate adaptation financing and other assistance, including technology transfer and capacity building. The use of such evaluative tools should be guided by identified equitable principles such as alignment and harmonization. The trend of focusing on technology collaboration rather than technology transfer may also be replicable for the climate regime.
- **Selection criteria adopted for private sector engagement should be robust.** Principles or formulas for working with the private sector in the aid sector can be adapted to the climate regime, to ensure that vulnerability and marginalized groups or regions are considered in project and partner identification. Private sector engagement will leverage financing by addressing risk and improving efficiency and innovation. However, donors and governments need to approach the private sector with caution. Given that profitability is not guaranteed in adaptation projects, establishing governance and oversight mechanisms will be critical. This will ensure that private sector engagement will be aligned and compatible with overarching climate objectives, rather than being too skewed towards profit seeking.

## 7. CONCLUSION

This report has explored how equity is applied and operationalized in the aid sector, for the purpose of identifying potential lessons for the international climate regime. Equity in the aid sector has been interpreted through the fair distribution of aid, as well as aid effectiveness. The organizations examined for this report have demonstrated various strategies to allocate aid, attempting to achieve a balance between their own interests and the needs of aid recipients. This report has revealed that, despite the complexities of the aid sector, useful lessons exist for the international climate regime, particularly in methods to facilitate the application of equity and ‘common but differentiated responsibilities and respective capabilities’ under the UNFCCC. These findings have included several overarching themes that may contribute to shifting the climate dialogue, such as the principles contained in the Paris Declaration. Specific technical lessons also have been identified, such as the use of formulas and graduation policies to facilitate objective yet flexible decision-making around aid allocations. Finally, it should be acknowledged that while not all experiences of the aid sector will be directly replicable to the climate regime, they nevertheless offer valuable insights into relative successes and failures, given the many years of experience of these organizations in trying to achieve an appropriate balance between their own interests and those of recipients.

## 8. APPENDIX

### 8.1 Multilateral Financing Institutions

#### 8.1.1 World Bank

##### INTRODUCTION

The World Bank is comprised of two institutions, the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) (World Bank 2013e). The IBRD provides low-interest loans for middle-income and creditworthy poor countries, while the IDA focuses on providing assistance to the bottom 81 countries struggling with poverty, instability and development, through the use of long-term loans, interest-free credits and grants (World Bank; IDA 2013d). Together, the IBRD and IDA have a staff of over 9,000 and a diverse portfolio of development tools (World Bank 2013c).

##### ELIGIBILITY AND GRADUATION

Generally, the World Banks categorizes countries into groups for the purposes of determining whether they are eligible for assistance through the IDA or the IBRD, or a 'blend' of assistance from the two institutions (if a country has a low income but is considered creditworthy) (World Bank 2013a). These categories are determined mainly by GNI (see further below) (World Bank 2013a). Classifications include low income, middle (split into lower and upper middle) income or high income, based on their GNI. Effectively, to be eligible for IDA assistance, countries must have a GNI below \$1,195 per capita (although the cut-off figures are revised annually) (World Bank 2013). IBRD countries are also classified according to GNI; with middle-income countries of between approximately US\$1,000 and \$10,000 eligible for its loans (World Bank 2013a). These classifications acknowledge different needs and country circumstances, and ensure emerging or transitioning economies still have access to World Bank assistance if needed.

While the cut off for eligibility to the IDA is guided by GNI, the World Bank does not have a rigid threshold for graduation from IBRD assistance (World Bank 2013a). Countries will be eligible "until they are able to sustain long-term development without further recourse to Bank financing and until they have reached a sufficiently advanced level of

development” (Heckelman et al. 2011). An income threshold is instead used as a trigger for commencing discussions about graduation. This level is currently set at US\$6,725 (World Bank 2013a). Analysis of this approach has concluded that “the path to graduation is evolutionary rather than abrupt”, and while GNI is important, a range of other factors will also be considered (Heckelman et al. 2011; World Bank FCS 2009). The approach of annually assessing and categorizing income groupings reflects the way the World Bank has tried to equitably balance the complex circumstances and needs of different economies to guide the kind of assistance it is willing and able to provide.

## ALLOCATION FORMULA AND CRITERIA

It is instructive to undertake a more detailed examination of how the World Bank assesses IDA countries for assistance, since IDA countries are the most vulnerable and are the only countries eligible for grants and deeply concessional loans, meaning that the process is likely to be more rigorous and more thoroughly incorporate concerns about vulnerability. Since the 1970s, the World Bank has utilized Performance-Based Allocation (PBA) as its strategy for assessing and allocating IDA country assistance (World Bank FCS 2009). Criteria included in the PBA analysis incorporate Paris Declaration principles, thereby ensuring greater effectiveness of funds by engaging recipients for sustained results, and qualifying them based on indicators drawn from economic, social and political institutions (IIE 2004).

The World Bank’s PBA approach utilizes an equation to evaluate a given country’s eligibility, and determine the size and terms for each allocation (World Bank IDA 2009). This formula takes into consideration a Country Performance Rating (CPR) and ‘need,’ which is effectively accounted for using population size and GNI (World Bank IDA 2009). These three components are weighted as follows:

$$\text{Aid Allocation} = f(\text{CPR}^{5.0}, \text{Population}^{1.0}, \text{GNI/capita}^{-0.125})$$

The CPR is calculated by taking the weighted averages of a Country Policy and Institutional Assessment (CPIA) and the Portfolio Performance Rating (PPR) (World Bank IDA 2009). The CPIA is the chief component of the CPR, and is a diagnostic tool used to qualitatively evaluate each country’s creditworthiness, based on their internal policies and characteristics that can be relatively controlled by governmental institutions (World Bank IDA 2009). This is a somewhat subjective exercise, however, given that interpretation of information and data is complicated and frequently difficult to access or replicate. The CPIA is recalculated annually in an assessment led by World Bank staff, and in collaboration with recipient county officials and other field experts (World Bank IDA 2009). World Bank staff, on the ground in nearly all IDA countries, critique the countries’ policies and progress based on sixteen specific criteria. These criteria are grouped into four categories (World Bank IDA 2009):

- A: Economic Management
- B: Structural Policies
- C: Policies for Social Inclusion/Equity
- D: Public Sector Management and Institutions



The assessment appraises a given country based on current metrics, and does not factor in commitments or intentions for future policies or statutes (World Bank 2013).

Staffs rate the criteria on a 1-6 scale, providing proposed ratings together with justifications in writing (World Bank IDA 2009). The resulting numerical value is intended to capture the quality of a country's policies and institutional arrangements to determine the country's ability to support sustained growth, poverty reduction, and the effective use of aid (World Bank 2013). The CPIA ratings options are described in detail to limit inconsistencies from one staff member to the next (IDA 2010). Each staff member's ratings of all criteria are averaged to determine the overall rating used in the general equation (World Bank IDA 2009). This approach is seemingly an objective approach to fairly evaluating recipient countries' creditworthiness. The overall CPIA score, the IDA Resource Allocation Index (IRAI), helps define terms regarding grace periods, the size of the Bank's lending and grants, repayment periods and interest rates (IDA 2010). The PPR is a measure that indicates past project success related to the IDA's Report Card and Results Measurement System (IDA 2010).

Both the CPIA and the PPR are weighted according to the following formula (IDA 2010):

$$\text{CPR} = (0.24 * \text{CPIA A-C}) + (0.68 * \text{CPIA D}) + (0.08 * \text{PPR})$$

This equation indicates that the World Bank weighs the CPIA of the different categories of criteria, giving greater weight to the category of Public Sector Management and Institutions (D). PPR is weighted as less important than their CPIA scores, but nonetheless has some impact.

## OWNERSHIP, HARMONIZATION, AND CONDITIONALITY

Consistent with the Paris Declaration's principles of harmonization, alignment and ownership, the World Bank has made efforts to address recipient countries' capacity building needs by coordinating financial management and procurement through country systems and by involving the recipient country in planning and strategy (World Bank PovertyNet 2011). This approach is also reflected in the way that the World Bank utilizes tools such as Country Assistance Strategies (CAS) and Poverty Reduction Strategy Papers (PRSP) (World Bank PovertyNet 2011). Both the CAS and PRSP involve the recipient countries in long term planning to promote mutual accountability, ownership, responsibility, transparency and capacity building. However, it is unclear whether the World Bank is always successful in effectively achieving these goals through such approaches. These strategies effectively represent conditionality, as the World Bank only will give funding to priorities identified within them.

A recent incident in Rwanda illustrates that there remain conflicting views about the success of such tools in individual cases, as well as whether the PBA system and the use of tools such as CAS provides equitable outcomes. This case also highlights the World

Bank's approach to considering human rights abuses in their decision for aid allocation. In September of 2012, Human Rights Watch appealed to the World Bank to review its funding to Rwanda, as other national aid agencies had done, due to ongoing concerns that Rwandan officials were involved in human rights violations in the neighboring Democratic Republic of Congo (Rwamucyo 2012). As one of the major donors in Rwanda, Human Rights Watch argued that this amounted to ignoring the human rights obligations of the World Bank's shareholders (Evans 2012). It also argued that the Rwandan government itself was not acting in accordance with its own obligations as established in its Economic Development and Poverty Reduction Strategy (EDPRS) and that "the World Bank should do more to highlight the gulf between Rwanda's commitments under the EDPRS and the day-to-day reality in the country" (Evans 2012). Rwandan officials countered that World Bank funding suspensions should not be based on decisions related to domestic politics (Rwamucyo 2012). Given that Rwanda relies on foreign assistance for up to 40% of its budget needs, aid suspension clearly has the potential for severe impacts across society (The Economist 2013). The conflicting views demonstrate the complexity the World Bank faces in the implementation and application of its PBA criteria and country strategies and plans, as well as the conflicting views of different stakeholders in the 'balancing act' of trying to ensure that aid allocation is equitable.

## ADDRESSING FRAGILITY AND VULNERABILITY

Counties struggling from recurring debt have been able to better qualify for aid through World Bank initiatives like the Enhanced Heavily Indebted Poor Countries Initiative (Claessens et al. 2013). The World Bank also incorporates flexibility for states in transition, conflict, and crisis through specific allowances, including those outlined in the World Bank's Fragile State Principles, to make aid donation permissible to countries which otherwise would not qualify (World Bank FCS 2009). The Fragile State principles were adopted in 2005 to manage donors' behaviors while working with fragile states (World Bank FCS 2009). The principles emphasize long-term engagement, flexibility, good-doing, prevention and non-discrimination (World Bank FCS 2009). However, the World Bank does not always appropriately incorporate fragility or vulnerability through its lending practices, leading recipient countries to default on their loans and in some cases disqualify for continued aid.

In 2004, Hurricane Ivan catalyzed a series of loans, project and credit aid from the World Bank and other donor sources (McPhie 2013). Grenada, a country of historically low GDP and small population, coupled with reconstruction needs, has since defaulted on its liabilities, succumbed to tax levies, and faces disqualification from future World Bank aid until it fulfills overdue payments (Black Voice News 2013). Grenada's difficult situation is the direct result of predetermined loan conditions, and failures in implementing an effective mutual accountability framework. Meanwhile, Grenada's unintentional defaulting has jeopardized the World Bank's ability to uphold its loan repayment schedules (World Bank 2013b). Greater sensitivity given to the particular circumstances of vulnerable states, such as small island states, could foster stronger partnerships between multilateral institutions such as the World Bank and recipient governments for effective and more equitable loan allocation and repayment.

Thus, it appears that despite the World Bank's efforts to accommodate its lending policies to adapt to recipient country needs through extensive programs and policies, exceptions, and the evolution of processes to adhere to the Paris Declaration, significant shortcomings remain. While the PBA approach is relatively objective, it is apparent that particularly for more vulnerable nations, greater care is still required to better ensure the economic realities in the recipient countries are effectively incorporated in determining the terms of grant and loan assistance. While the Bank attempts to strike a balance between "predictability and responsiveness," it could enhance this by better incorporating metrics that are more closely linked to vulnerability (World Bank 2011).

## RESOURCE GENERATION AND GOVERNANCE

The management of the World Bank influences resource generation for the Bank's activities. Governance of the World Bank at the executive level falls disproportionately with the five primary shareholders: France, Germany, Japan, the United States and the United Kingdom (World Bank 2013e). The unbalanced structure of the World Bank's leadership fosters political interference that has been criticized as generating continued supremacy of developed nations over more disadvantaged ones (Runde 2001; Bretton Woods Project 2012). The struggle to overcome this imbalance is complicated by the overwhelming need to generate funds from developed countries. The unequal representation of member countries at the highest levels of governance potentially prohibits non-shareholder countries from equitably participating in discussions. Unforeseen or misunderstood risks, such as those that have resulted in displacement from hydroelectric infrastructure projects, could potentially have been mitigated with more inclusive governance, including the weighted participation of developing countries (Namy 2007; Vidal 2013). As alleged by various critiques of the World Bank, this "undemocratic" approach to governance effectively permeates throughout the organization, despite major efforts to apply equity in practice through approaches such as the PBA and other evaluative tools (The Bretton Woods Project 2012).

## MANAGING FOR RESULTS

The World Bank incorporates results-based management into its programming. The World Bank's newest loan program, Program-for-Results (P4R), links disbursements with predetermined milestones (World Bank 2013). While P4R can be criticized as a form of conditionality, these reforms also in effect impose mutual accountability. The World Bank has also recently initiated a program to promote aid effectiveness, titled 'Mapping for Results' (World Bank 2012). This program is an effort to better target poverty at the sub-national level by geo-coding its entire project portfolio (by mapping poverty data with geographical locations of projects) (World Bank 2012). In this way, it is intended to produce more effective aid allocations by targeting those areas most in need. It is also intended to enhance coordination with other donors, and by making the information publicly accessible, to improve transparency and accountability for achieving results at

the project level (World Bank 2012). The Brookings Institute, in a recent article including discussion of the World Bank's geo-coding approach, stated that, "our findings suggest that the World Bank rarely focuses its aid in the poorest regions in a country. However we refrain from casting judgment on the appropriateness of the Bank's allocations due to unresolved questions concerning how targeting is measured, when targeting is appropriate, and how it can best be brought about" (Chandy et al. 2013). The World Bank could therefore further its aid effectiveness, and improve the way it targets areas of the greatest vulnerability and need, by taking greater consideration of these third party critiques and by incorporating additional analytical techniques utilized by third party organizations (Chandy et al. 2013).

## **8.1.2 Asian Development Bank & the Inter-American Development Bank**

### INTRODUCTION

There are four regional banks that have been established to fund development projects for member states within their region: the European Bank for Reconstruction and Development, the African Development Bank, the Asian Development Bank (ADB) and the Inter-American Development Bank (IDB). The ADB and the IDB have been selected to highlight how the banks operationalize and apply equity. The mission of both regional banks is to reduce poverty in their respective regions by focusing on development projects. The Asian Development Bank is most closely modeled off the World Bank and many, though not all, of its operational policies are similar to the World Bank, such as performance based lending and country partnership strategies. The Inter-American Development Bank is less closely aligned with the World Bank, as it does not follow the exact formulas or equations for eligibility of funds, but follows similar guiding principles. Though their operations are different and nuanced in some aspects, these banks share many similar over-arching features and mechanisms. Equity plays a role in the operations of these regional banks through frameworks and modalities such as graduation policies, performance-based allocation, and involvement of the private sector, and thus guides the distribution of aid by these banks.

### ADB RESOURCE ALLOCATION

The ADB allocates resources using two methods in combination: a graduation policy and a performance-based loan policy. Any Asia-Pacific country that is a member of the ADB and meets certain criteria (GNI per capita, a weighted value of political and economic

factors, etc.), as discussed in detail below, is eligible for grants or loans from the bank (ADB 1998). Once they no longer meet the criteria, the graduation process begins from one level of assistance to another, with the potential to graduate from receiving regular aid altogether (ADB 1998). The Bank only issues grants for countries under extreme circumstances, such as when there is political or military turmoil in a country, while loans are more widely available. The most recent member states to receive grants were Afghanistan and Timor-Leste, both of which are now in the graduation process from grants to low-interest loans, defined below (ADB 2012; ADB 2011). The ADB has two categories of loans. The first is an ordinary capital resource (OCR) loan issued at market rates (ADB 1998). Some countries qualify for a second category including low interest rate loans, and grants, managed by the Asian Development Fund (ADF) (ADB 1998).

## ADB GRADUATION POLICY

The bank has a formal graduation policy, with countries falling under three distinct tiers:

- Group A - ADF-issued loans only
- Group B - Blend of ADF and OCR loans
- Group C - OCR type loans only

A final “group D” tier is for countries that have graduated from receiving assistance from the ADB (ADB 2011). For Group A member states, graduation from ADF loans begins “when a country exceeds the per capita GNI operational cutoff (\$1,135 in 2008 US dollars) and achieves adequate credit worthiness for OCR or market-based resources” (ADB 2011a). To graduate from aid completely, the process is initiated by 3 factors: “i) GNI per capita, ii) availability of commercial capital flows on reasonable terms, and iii) attainment of a certain level of development by key economic and social institutions” (ADB 2011a). The ADB has used the World Bank’s criteria of \$6725 (2008 USD) of GNI per capita to begin the review process to determine if the other two criteria have been met as well. The graduation process is flexible and can take up to four years to fully transition from one group to another, based on the economic and development state of a country once it hits the specified GNI per capita number (ADB 2011a).

The ADB’s graduation policy serves as a transparent and accountable method for distribution of funds. AusAID has rated the ADB’s graduation as transparent because it is based on two clear and published results: GNI levels per capita, and an annual country assessment that takes into account a variety of economic, political, and social factors (AusAID 2012). In addition, the Multilateral Organization Performance Assessment Network (MOPAN) in 2010 published an assessment which stated that the ADB’s “transparent and predictable aid allocation decisions” was a strength for the organization (MOPAN 2010). While it is difficult to measure the effectiveness of a graduation policy for achieving real results in poverty reduction, as this is predicated on a variety of factors working in synergy with one another, the ADB’s graduation policy appears to be a successful way to operationalize equity through a commitment to transparency and objectivity.

## IDB RESOURCE ALLOCATION

The Inter-American Development Bank (IDB) disburses funds through a framework comprised of a country's ability to take on debt (operationalized through a graduation policy), and performance-based allocation, which is discussed below. The IDB does not have a formal graduation policy based on a specific GNI per capita level, but it does informally assess graduation from one of its four tiers (ADB 1998). Countries are classified based on their existing economic situation, as follows (IDB, Board of Governors, 2010):

Group D - These countries have the “lowest social and economic indicators in the region”

Group C - These countries have insufficient markets or are particularly vulnerable to economic crises due to their small size.

Group B - These countries are larger in terms of population and national products for export.

Group A - These countries are considered economically advanced but many still require investment development.

The Bank has two types of loans: (1) the Fund for Special Operations, which like the ADF, provides low interest loans to countries, and (2) Ordinary Capital loans. Only group D countries - Haiti, Bolivia, Guyana, Honduras and Nicaragua - are eligible to receive low interest loans from the Fund for Special Operations due to their “acute development” issues, and only Haiti is eligible for grants at this time (IDB Board of Governors 2010). In summation, preference for funding is given to less developed countries, with a goal of having 35% of its total lending go to small and vulnerable countries (Groups C and D) by 2015 (IDB Board of Governors 2010).

Within both the ADB and IDB graduation policies, the idea of “fairness” - that each country is receiving the level of aid appropriate for its stage of development - is employed. The existence of three (ADB) or four (IDB) tiered funding groups speaks to the diversity of country situations, i.e. more impoverished countries with greater debt than others require more flexible approaches to assistance. Both banks recognize that not every country is able to take on market-rate loans, or even sometimes low interest loans, and the policies described above attempt to account for the various needs of each country.

## PERFORMANCE-BASED LENDING

Both regional banks utilize performance-based or performance-driven loans (PDLs), with mixed results. Performance-based loans consider the economic and political nature, along with the creditworthiness of a country to determine how likely they are to repay each type of loan, and whether or not they should be allocated a loan. In other words, the *performance* of a country's development process determines which type of aid they are

eligible for, whether that is grants, low interest loans, or market rate loans. For the Asian Development Bank, this determination is made by calculating a country's performance index based on fifteen factors, which range from the country portfolio and macroeconomic policy to the level of government corruption and societal gender equity (ADB 2008). These factors are given different weights: 30% to a country's portfolio, 70% to a combined social, economic, and trade factors, and an additional 100% to a country's political governance (ADB 2008).

The ADB made the decision to add PDLs, in addition to policy-based and investment lending loans, for the purpose of increasing the bank's aid effectiveness. Without performance-driven loans, the ADB felt that "high transaction costs and missed opportunities" were prevalent (ADB 2013c). However, the IDB, which began using PDLs in 2003, found in a 2009 review that PDLs placed duplicate or double requirements on funding, increased transaction costs, and more effort was spent controlling expenditures than achieving the overarching goal of the project (ADB 2013c). Thus, though the purpose of the IDB's PDL's was to increase harmonization, it only exacerbated unfavorable results. From these two examples, it appears the success of performance-driven loans is mixed or moderate. If used properly, they can increase aid effectiveness and lead to better outcomes, but if the requirements are too numerous, more time and effort could be spent on the PDL process than the project itself.

## PRIVATE SECTOR INVOLVEMENT

The ABD and the IDB have both incorporated private sector involvement in their operations and aim to scale-up the amount of private sector aid and involvement in the future, to create more and better partnerships for aid. ADB lending to the private sector comprises a small percentage of their operations, though one of the goals in their Strategy 2020 plan is to increase private sector loans to 50% of total lending (ADB 2012a; ADB 2013; ADB 2013d). However, the IDB lends significantly more to the private sector, with private sector loans comprising 36.1% of its overall lending (IDB Board of Governors 2010). IDB provides loans to projects that aim to achieve one or more of the following goals: (i) greater social inclusion for the poorest, (ii) greater access to basic services, (iii) enhanced access to credit and capital markets, (iv) deeper regional integration, and (v) climate change adaptation and mitigation (IDB Board of Governors 2010). These lending guidelines represent an attempt to ensure the equitable allocation of funding through private sector projects by incorporating considerations of need and vulnerability. Another mechanism for private sector inclusion, the IDB's Aid for Trade (AFT) initiative hopes to capitalize on the benefits of liberalized markets by "channeling resources to enhance trade-related capacities and overcome supply-side constraints" (IDB 2013). The IDB specifically states that the AFT initiative should be implemented according to the principles of the Paris Declaration (IDB 2013).

## 8.1.3 IFC

### INTRODUCTION

The IFC, a member of the World Bank Group, is the largest multilateral source of loan and equity financing for the private sector in developing countries. In partnership with other investors, IFC provides its clients with direct investment through loans and intermediary services, loan participation, equity, structured finance, trade finance, risk management products, and sub-national finance (IFC 2013). The IFC also provides advisory services regarding access to finance, sustainable business, investment climate and public-private partnerships. As of 2010, more than 60 percent of the projects in the IFC's advisory portfolio were located in International Development Association (IDA)-eligible countries (IFC 2012).

### RESOURCE ALLOCATION CRITERIA

IFC has five strategic priorities (IFC 2012) to help focus aid on areas of most need and where it will achieve the greatest benefit:

1. Strengthening the focus on frontier markets, including IDA countries, fragile and conflict situations, and frontier regions of middle-income countries;
2. Addressing climate change and ensuring environmental and social sustainability through new business models and financing instruments, as well as setting and raising standards;
3. Addressing constraints to private sector growth in infrastructure, health, education, and the food supply chain by increasing access to basic services and strengthening the agribusiness value chain;
4. Developing local financial markets by building institutions, mobilizing resources, and introducing innovative financial products;
5. Building long-term client relationships in emerging markets by using products and services to guide clients' development and assist cross-border growth (IFC 2012).

IFC selects projects to receive aid through a comprehensive evaluation process. To receive IFC funding, a company or entrepreneur can approach IFC directly by submitting an investment proposal. Projects are considered from various perspectives, with a particular focus on whether the project contributes to the larger, strategic context of their own country, the IFC, or the World Bank. The IFC also considers potential additionality, meaning additional leverage or advantages that may be achieved, and projected development impacts on financial, economic, social, and environmental sectors (IFC 2009).



## CRITIQUE

The IFC appears to give limited consideration to equitable principles, as revealed through its allocation decisions. Though the IFC has been increasingly investing in developing nations, in reality this aid is not spread proportionately amongst poor nations. IFC's investments are highly concentrated in just a few countries. In 2010, the top four countries in terms of commitments—India, Nigeria, Pakistan, and Vietnam—accounted for 59 percent of IFC investments in IDA countries. In 2012, the largest recipient countries were India, Brazil, China, Turkey and Russian Federation (IEG 2011). This indicates that IFC focuses heavily on the risk or profit of projects they have invested in, with the result that excessive consideration of such interests results in IFC giving equity concerns less consideration when allocating assistance.

Moreover, the main critique of the IFC centers on its failure to adequately realize its poverty reduction mission due to its financing of inappropriate projects, such as luxury hotel developments. As one journalist identified, IFC recently provided a loan of \$26 million for a luxury Movenpick hotel in Ghana, owned by Prince Alwaleed bin Talal, the world's 29<sup>th</sup>-richest person (Einhorn 2013). This contradicts IFC's claim that "every dollar of profit they make is reinvested to support private sector development, increasingly in the poorest countries" (Moats 2013). While, as IFC notes, projects like hotels "play a critical role in development as they catalyze tourism and business infrastructure [and] generate jobs, grow tax revenues, increase foreign exchange earnings, and provide better opportunities for small businesses" (IFC 2013), it is necessary to determine that the actual beneficiaries from such a project are the most needy citizens themselves. Although the IFC claims to consider additionality, it was overlooked in this case, as the company could have afforded to fund the project itself (Einhorn 2013).

In a 2011 review of 500 IFC projects, the World Bank's internal watchdog agency, the Independent Evaluation Group (IEG) found that only 13 percent "had objectives with an explicit focus on poor people" (Einhorn 2013). It found that "most IFC investment projects generate satisfactory returns, but do not provide evidence of identifiable opportunities for the poor to benefit from the economic activities that the project supports" (IEG 2011). In addition, IEG found that the IFC evaluates frontier regions in middle-income countries on the basis of per capita income. This leads them to focus on regions with the highest poverty rates, despite the fact that poverty maps show the largest concentrations of poor people are not in these locations (IEG 2011). The IEG concluded that "this, together with the diversity of poverty in MICs and the importance of non-income dimensions of poverty in providing access to opportunities, suggests the need for a broader set of criteria that include income and non-income dimensions of poverty" (IEG 2011).

Based on above analysis and examples, IFC does not appear to have adequate mechanisms to operationalize equity through its process for identifying and funding projects. To address its shortcomings, IFC could "adopt a more strategic approach to

addressing poverty, sharpen the definition and shared understanding of poverty and poverty impacts, and provide guidance to staff on how to address it within the development effectiveness framework at the strategy and project levels” (IEG 2011). This analysis of the IFC demonstrates that when financing development assistance and aid through the private sector, caution is required in establishing robust frameworks to ensure a balance is maintained between investment decisions to generate profit, while also adequately integrating other goals such as reducing poverty and improving economic and financial situations in developing countries, especially the poorest nations. More equally distributing grants to the poorest countries, providing equal opportunities for funding and strategic planning, assessing impacts more rigorously and transparently, and selecting projects that can really help the most vulnerable people are steps IFC may choose to take in order to achieve more equitable results in the future.

## 8.2 Other Multilateral Institutions

### 8.2.1 EU Cohesion Policy

#### INTRODUCTION

“The Community shall aim at reducing the disparities between the levels of development of the various regions” (DG Regional Policy 2010).

*-Treaty of Rome, 1957, founding act of the European Union*

Reducing regional disparities has been a key goal of the European Union since its inception, as indicated by this quote from the Treaty of Rome. Today this is enacted through the EU Cohesion Policy, which contributed 80% of its budget to the poorest EU regions from 2007-2013 (EurActiv 2013). The stated objective of the Cohesion Policy is to strengthen economic and social cohesion within the European Union (EC 2013a). In order to achieve this, the EU invests in programs related to “job creation, competitiveness, economic growth, improved quality of life, and sustainable development” (EC 2013b). This part of the report considers the current Cohesion Policy (2007-2013) as well as the forthcoming policy for 2014 -2020.

#### RESOURCE GENERATION

Finances for implementing the EU Cohesion Policy stem from three funds: the European Regional Development Fund (ERDF), the European Social Fund (ESF), and the Cohesion Fund (EC 2013c). For the 2007-2013 Cohesion Policy funding totaled €347 billion, accounting for a significant portion of the EU budget at 35.7% (EC 2013d). Equity is an intrinsic component of EU finances, in the sense that wealthier EU nations contribute more money overall to the EU budget (Nationmaster 2012; Rogers 2012). This is largely achieved through the balancing system, which is the greatest revenue source for the EU. The balancing system levies a standard percentage on each country's gross national income (GNI) (EC 2013e). Through this mechanism, the wealthiest nations with the highest GNI levels contribute more to the EU budget relative to poorer nations. The other internal revenue source is value added tax (VAT), or consumption tax. Since consumption makes up a higher percentage of national income in developing countries, this mechanism puts developing nations at risk of contributing a disproportionate amount (EC 2013e). For this reason, the VAT mechanism includes a cap at 50% of GNI (EC 2013e). These two mechanisms, together with customs duties on imports, generate 99% of the EU budget (EC 2013e).

## RESOURCE ALLOCATION

At the same time, resource allocation is also based on economic strength, with wealthy nations receiving proportionately less. Nine nations contribute more to the budget than they spend<sup>1</sup> (Rogers 2012), all of which are developed nations with strong economies (Nationmaster 2012; Rogers 2012). The other 18 nations, which include some developed nations, extract more from the EU budget than they contribute (Rogers 2012). This essentially results in a redistribution of resources in which nations with stronger economies aid the development of those with weaker economies. It is important to note, however, that this is not a selfless act on the part of the wealthiest EU nations, who benefit in other ways. According to an article in *The Guardian*, “The EU points out that although it spends less in the UK than the national contribution, the British economy gains much more from access to European markets and contracts. UK exports to the EU were worth nearly €12 billion in September [2012] alone” (Rogers 2012).

Funding for the Cohesion Policy is organized around three key objectives. Its goals, and the percentage of the total 2007-2013 budget dedicated towards achieving those goals, are as follows (EC 2013f):

1. Convergence – reducing regional disparities by helping poorer regions – 81.5%
2. Regional Competitiveness and Employment – improving performance in wealthier nations with a goal of creating improvements for the EU as a whole – 16%
3. European Territorial Cooperation – encouraging cooperation across regional and national borders – 2.5%

The three Cohesion Policy funds mentioned in the introduction contribute to these objectives, as indicated in Figure 1. It is clear that that the convergence objective, with its focus on hastening development in poorer regions, receives the most resources.

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<sup>1</sup> The Netherlands, the United Kingdom, Sweden, Germany, Italy, Denmark, Finland, France, and Austria.

Objectives	Structural Funds and instruments		
Convergence	ERDF	ESF	Cohesion Fund
Regional Competitiveness and Employment	ERDF	ESF	
European Territorial Cooperation	ERDF		

Figure 1: Objectives, Structural Funds, and Instruments 2007-2013

## ALLOCATION CRITERIA

The Cohesion Policy determines eligibility for objectives and funds based on regional economic vitality. For all funds (except for the Cohesion Fund) recipients are evaluated at the NUTS 2 regional level (EC 2011). The NUTS, or Nomenclature of Territorial Units for Statistics, system is a hierarchical classification of regions based on population (Eurostat 2011). NUTS 2 regions fall between 800,000 and 3 million residents, and in many countries (such as Spain and Italy) these regions follow the same borders as official national administrative divisions (Eurostat 2011). This regionality is an important component of the Cohesion Policy, because it accounts for the local disparities within developed countries. For instance, both Spain and Italy contain regions that are in the high-need category, and these regions would likely be overlooked if recipients were evaluated at the national level (EC 2013g; EuroStat 2013). With each new Cohesion Policy, these NUTS 2 regions are evaluated in terms of GDP per capita. The average EU GDP per capita is used as a baseline (EC 2011).

## TRANSITION CATEGORIES

For the new 2014-2020 Policy, regions are assigned to one of three categories depending on their relation to the baseline. The categories, and the percentage of the total budget they receive for the 2014-2020 Policy are as follows (EC 2013g):

1. Less Developed Regions (less than 75% baseline GDP) – 68.7% of budget
2. Transition Regions (75-90% baseline GDP) – 11.6% of budget
3. More Developed Regions (greater than 90% baseline GDP) – 15.8% of budget.

The Transition Region category serves as a graduation policy, essentially ‘weaning’ developing regions off of aid. It also offers increased aid to nations undergoing economic decline. The Transition Region category is a new, simplified adaptation for the 2014-2020 Policy (EurActiv 2013). Under the 2007-2013 policy, regions that had changed categories due to the baseline change from EU-15 to EU-27 were accounted for in various ways without having a separate category (EurActiv 2013). Overall, the use of economic

categories, and of NUTS 2 regions, offers a formulaic way to determine funding allocation.

## TRANSPARENCY AND ACCOUNTABILITY

Aspects of the policy reflect Paris Declaration principles, particularly transparency and mutual accountability. The Cohesion Policy maintains transparency through its project database and through project evaluation reports (EC 2013i). It upholds mutual accountability through its policy stating that recipients are responsible for project implementation (EC 2013j).

## EFFECTIVENESS

According to a 2009 report by the European Policies Research Centre, a 2007 OECD report suggests that “the debate on the overall effectiveness of EU regional policy is still largely inconclusive”(Wostner and Slander 2009). This is largely due to methodological challenges in macroeconomic and econometric evaluations of the Policy, including subjectivity of the models used, the lag effect of different investments, and the fact that the small size of economic shock imposed by the Policy is too small for econometrics to pick up (Wostner and Slander 2009).

However, the EU Commission itself and supporters of the Cohesion Policy often point to Poland as a case study demonstrating the benefits of the EU Cohesion Policy (EC 2013k). When Poland entered the EU in 2004, all 16 of its regions were under the 75% baseline GDP per capita, making them eligible for funding under the Convergence objective (EU Cohesion 2009). From 2004-2007 roughly 85,000 projects were implemented in Poland through the Cohesion Policy, with half of them relating to basic infrastructure (EU Cohesion 2009). According to Poland’s Minister of Regional Development, Elzbieta Bienkowska, “My country is the best example of the fact that well invested European funds under the Cohesion Policy give the desired outcome: not only alleviating the effects of the crisis, but protecting against its recurrence in the future” (Ministry of Regional Development 2012). The Polish Ministry of Regional Development estimates that in 2011, Cohesion Policy programs led to an increase in GDP growth rate of 0.6-0.8 percentage points, and a 1.2 percentage point drop in unemployment (Ministry of Regional Development 2012). For the upcoming policy, one Polish region achieved transition region status.

The 2009 financial crisis, however, calls into question whether Poland really demonstrates Cohesion Policy success. While Poland enjoyed GDP growth of nearly 2%, during the financial crisis, the rest of Europe was in deep recession (Ministry of Regional Development 2012). If the Cohesion Policy was successful for Poland’s success, this begs the question as to why other EU nations failed to achieve growth. One possible

explanation is the large volume of aid that Poland received from the Cohesion Policy. For the 2007-2013 Cohesion Policy, Poland was the largest national recipient of aid at approximately €67 billion (EU Cohesion 2009). Another possibility is that Poland utilizes its funding differently. The Polish Ministry of Regional Development, attributes half of its 2009 growth to “efficient use of EU funds,” implying that Poland was responsible for its own success due to unique implementation (EC Cohesion 2009). A third possibility is that other factors account for Poland’s growth, and that the Polish government is overestimating the Cohesion Policy’s contribution. However, ultimately the impact of the Cohesion Policy here remains uncertain. There is no additional evaluation available to enable a clear conclusion to be drawn on this issue.

## **8.2.2 United Nations Development Programme (UNDP)**

The UNDP’s approach is focused on projects and technical assistance. It provides policy advice, conducts evaluations, research, and analysis, and provides training and capacity building. Technical support is provided through capacity assessments, designing and executing capacity development responses (UNDP 2013).

### RESOURCE GENERATION

UNDP is largely funded by the voluntary contributions of bilateral and other multilateral donors. It receives both core and non-core (ear-marked) funding. Earmarked resources represent an important complement to the regular, non-earmarked resource base of UNDP. For example, voluntary contributions to UNDP’s regular (core) resources reached \$1.01 billion in 2009, while combined earmarked (non-core) contributions to UNDP in 2009 reached \$3.67 billion (UNDP 2013). Due to this voluntary aspect of contributions, donors may not always uphold their commitments. UNDP thus faces challenges in achieving balanced and accountable contributions from donors, which creates difficulties in providing predictable assistance to developing countries. Such unpredictability makes achieving equity in resource allocation difficult, as no country can be guaranteed resources when generation is voluntary.

### RESOURCE ALLOCATION

UNDP conducts country evaluations to determine each country's specific situation and needs through Common Country Assessments (CCAs). These CCAs are used to identify assistance priorities for each country. The UN Development Assistance Framework (UNDAF) is the strategic framework that guides the operational activities of all UN operations within countries, including UNDP. The UNDAF represents the agreement of the national recipient government and UN agencies to collectively work towards three to five identified outcomes. These are required to be aligned with national priorities and goals, as well as human rights instruments that the recipient government has ratified (United Nations 2004).

UNDP collaborates with national and international development partners to assist recipient governments in using different instruments in the assessment task, with the purpose to identify causes of the major development challenges, and identify the most vulnerable within a country, disaggregating appropriately to capture the extent and location of poverty and highlighting gaps in capacity at various levels. These processes are oriented towards strengthening recipient government ownership over projects within their country, by seeking active participation of multiple stakeholders and national counterparts, while aligning with national planning cycles. At the project level, regular project board meetings under the leadership of the respective national counterpart are mandatory and require the presence of the principal beneficiary in all major decisions (UNDP 2009). Unfortunately, the level of delegation that UNDP grants to these local instruments – and therefore the level of direct involvement that UNDP has on the ground – can also sometimes lead to the misappropriation of funds or project failures, as illustrated in the following example.

In 2006, a UNDP project in northeast Uganda that advocated for voluntary disarmament to strengthen human security had to be suspended due to a series of human rights violations committed by the Ugandan military utilizing UNDP project funds. Even though UNDP's intention was to support peace-building by encouraging voluntary weapons collection processes, as outlined in the Government's Poverty Eradication and Action Plan, the funding was abused by the military, resulting in the UNDP halting the project suspending it after inadequately spending \$293,000 (Lee 2006). UNDP's assessment process failed to adequately address the fact that the country was politically unstable, and the government had counterproductive interests, which shifted the intended implementation of the program on the ground. As this particular case illustrates, tools such as CCAs to harmonize donor practices and encourage government ownership are not always successful. If there is an inadequate assessment of national circumstances, there are risks that results can deviate considerably from project goals. This can open the door not only to harmful consequences for the recipient populations, but also to loss of credibility for the donor institutions involved. While CCAs are important evaluative tools, it is clear that they must involve a critical assessment of the capacity of a country government for taking the lead in implementing a programme strategy, and there needs to be a careful balancing of the roles of both UNDP and the recipient government in this process.



## COORDINATION

UNDP focuses on coordination at the national level through round table mechanisms such as national thematic conferences that bring together technical experts, NGOs, government officials and civil society leaders, like-minded donor groups, as well as sector and thematic working groups. This intends to provide a neutral platform to harmonize donor practices, and determine where funding will go. UNDP also facilitates common arrangements and procedures for donors and other stakeholders by setting up multi-donor trust funds or other joint funding arrangements to coordinate support to a national programme or sector (UNDP 2011).

## ACCOUNTABILITY AND TRANSPARENCY

Based on the principle that national governments hold primary responsibility for their countries' development and for coordinating all types of external assistance, UNDP's support to programming in recipient countries is oriented towards strengthening capacity of the national government ownership and leadership over the development process (UNDP 2012).

UNDP supports the establishment and utilization of aid information management systems as a means to promote transparency, systematize data collection and use, and aid management by governments and national stakeholders. Aid information management systems are useful in improving aid information at the country level and for providing a basis for dialogue among donors and national counterparts (UNDP 2012). Particularly in post-conflict countries, these systems have been critical tools for increasing the timeliness and availability of information on external flows and supporting the launch of national development planning and budgeting. Some countries, for example Rwanda, are using their aid information management systems to track the performance of development partners (UNDP 2013b).

Some country-level aid information management systems, such as the Development Assistance Database (DAD), created from a series of satisfaction surveys of the working partners of donor organizations, track indicators based on the aid effectiveness principles of the Paris Declaration and are aimed at measuring donor performance. DAD has been established in more than 30 countries worldwide in close cooperation with UNDP and respective governments to promote transparency and accountability of funds, results-driven decision-making, and aid effectiveness (SYNISYS 2006). UNDP's support to aid information management and the establishment of aid information management systems enables governments to hold donors accountable to their financial commitments and to improve transparency of and mutual accountability for development results (UNDP 2011).

UNDP utilizes a 'managing for development results' (MfDR) framework, which applies the same basic concepts of the traditional focus of 'results-based management' (RBM) - planning, monitoring, evaluation, and learning, which feed back into planning. The

emphasis of the MfDR focuses on development assistance demonstrating real and meaningful results (UNDP 2013b). RBM approaches focused more on internal results and performance of agencies than on changes in the development conditions of people.

MfDR is a response to growing demands for public accountability to citizens in both the donor and recipient nations on how aid is utilized, the results achieved, and the appropriateness of these results. UNDP focuses on promoting results-based development management and mutual accountability mechanisms at country level through a number of tools. Since 2006, approaches include supporting the development of aid policies and strategies, country-level reviews of aid effectiveness indicators, assessments towards these targets, and capacity development for aid information management (UNDP 2013b).

## 8.3 National Aid Agencies

### 8.3.1 DFID

#### INTRODUCTION

The Department for International Development (DFID) is the UK's agency for development assistance. DFID's overall aim is to reduce poverty by enabling the achievement of the Millennium Development Goals (MDGs). It works directly in 27 countries across Africa, Asia, and the Middle East through bilateral aid arrangements, and works with international development agencies on a range of issues (DFID 2012).

#### RESOURCE ALLOCATION: BILATERAL AID

DFID's bilateral aid is allocated to 27 priority countries through a "need-effectiveness" approach. 'Need' is defined by (1) the number of people living under \$2 a day, (2) the country's score on the UN's Human Development Index (a two-year average) and (3) a measure of the country's fragility from the Country Indicators for Foreign Policy – Failed and Fragile States (CIFP-FFS). 'Effectiveness' is based on the World Bank's Country Policy and Institutional Assessment (CPIA) [see Appendix 8.1.1: World Bank]. The need-effectiveness formula is calculated as follows:

$$\text{HDI} * \text{CIFP-FFS} * \text{Population living under } \$2 \text{ a day}^{0.2} * \text{CPIA}$$

The resulting need-effectiveness index divides recipient countries into quartiles, by assessing each country's need-effectiveness scores from the formula above. Quartile one

include the countries in which aid is expected to have the most potential to achieve the best results, while those in quartile four are where aid is least likely to be well used. As seen in Table 2 below, 19 of DFID's 27 recipient countries are in the first and second quartiles. Several of DFID's recipient countries fall within the third quartile, indicating that they face substantial development challenges, but that UK Ministers believe distinctive bilateral aid programs in these countries will nevertheless make a significant impact (DFID 2011).

Quartile 1 <sup>a</sup>	Quartile 2	Quartile 3	Quartile 4
<b>India</b>	Cameroon	Sri Lanka	El Salvador
<b>Nigeria</b>	Guinea	<b>Tajikistan</b>	Mongolia
<b>Ethiopia</b>	Benin	<b>Kyrgyz Republic</b>	Tunisia
<b>Bangladesh</b>	Madagascar	Djibouti	Iran
<b>Pakistan</b>	<b>Nepal</b>	Colombia	Solomon Islands
<b>Uganda</b>	Haiti	Swaziland	Kazakhstan
<b>DRC</b>	Chad	<b>Zimbabwe</b>	Azerbaijan
<b>Afghanistan</b>	Liberia	Thailand	Dominican Republic
<b>Tanzania</b>	Angola	Bhutan	Jordan
<b>Burkina Faso</b>	Iraq	Georgia	Cape Verde
<b>Niger</b>	Vietnam	Guatemala	Ukraine
<b>Kenya</b>	Cambodia	Bolivia	Paraguay
Burundi	Central African Republic	<b>Occupied Palestinian Territories</b>	Guyana
<b>Mozambique</b>	Uzbekistan	Brazil	Sao Tome and Principe
<b>Rwanda</b>	Togo	Timor-Leste	Jamaica
Mali	Mauritania	Honduras	Maldives
<b>Burma</b>	Egypt	Algeria	Ecuador
<b>Sierra Leone</b>	Papua New Guinea	<b>Somalia</b>	Albania
Indonesia	Laos	Nicaragua	Bosnia & Herzegovina
<b>Yemen</b>	Philippines	Syria	Equatorial Guinea
Senegal	Gambia	Moldova	Samoa
<b>Ghana</b>	Guinea-Bissau	Namibia	Turkmenistan
China	Morocco	Armenia	Fiji
<b>Sudan</b>	Lesotho	Peru	Cuba
Côte d'Ivoire	Congo, Republic	Serbia	Macedonia
<b>Malawi</b>	Eritrea	Comoros	Suriname
<b>Zambia</b>			Belarus

Figure 2: The Need-Effectiveness Index

When narrowing down priority countries, DFID takes the activities of other donors into account, focusing on countries that are receiving high and low levels of aid in per capita terms. Moreover, DFID also focuses on humanitarian assistance when sudden onset emergencies occur (DFID 2011). By using this need-effectiveness index approach, DFID has relatively successfully applied an equitable approach in its aid allocation, by incorporating both need and effectiveness, ensuring aid is given to the countries where it is most needed, and where it can have the biggest possible impact on poverty reduction (DFID 2011).

Once the focus countries and regions are identified, each country office team is asked to develop a “results offer” which sets out results that can be realistically achieved by the provision of DFID’s development aid, as well as the cost and deliveries in terms of value for money. Results are supposed to address five “pillars of achievement”: wealth creation; direct delivery of the MDGs; governance and security; climate change; and humanitarian assistance. Once results offers been set, over 100 DFID technical advisers anonymously review them and assess their risks (DFID 2011). Offers will then be presented by the country teams at a meeting of the Ministers for detailed discussion. For instance, teams may be asked to estimate what results could be achieved if 20% more or fewer resources were allocated (DFID 2011).

While DFID utilizes the World Bank’s Performance Based Allocation (PBA) formula to assess the countries it has selected as recipients of bilateral aid, the PBA is not used for the initial selection of eligible countries. As noted above, DFID identifies specific countries to fund, which can include middle-income countries like India and Ghana. This is because DFID chooses its priority countries based on the “need-effectiveness index”, which does not necessarily identify the countries with the most acute ‘need’. For example, according to this index, India is considered the most effective country to utilize aid, due to its large population and a number of extremely poor regions. However DFID’s recent decision to cease its aid program in India by 2015, despite ongoing poverty and development challenges, has been criticized as an arbitrary political decision rather than one based on development considerations (Stewart 2013; Straw and Glennie 2013). This indicates that despite relatively robust decision-making frameworks discussed above guiding eligibility criteria, bilateral aid remains highly political.

## RESOURCE ALLOCATION: MULTILATERAL AID

DFID partners with the multilateral development banks to allocate concessionary funds and grants. It utilizes the World Bank’s PBA formula to incorporate data on population and per capita income, as well as evidence of past performance [see Appendix 8.1.1: World Bank]. PBA therefore guides DFID’s resource allocation to countries eligible for multilateral development aid, which they consider to be a fair method of providing aid to the most needed countries.

DFID has also developed a “multilateral aid review”, an assessment framework that is used to assess 43 development agencies based on a range of criteria, contributions, and organizational factors. Criteria for assessment range from an agency’s promotion of gender equality to its commitment to climate change. All agencies are investigated, scored and placed in a ‘value for money’ chart (Figure 3, below). This classifies these agencies into four categories: very good, good, adequate, and poor. This approach appears useful, with review outcomes leading to decisions by DFID to stop funding the agencies that were rated least effective (Maxwell 2011). Some partners and projects were rated more effective, including UNICEF, the GAVI Alliance for vaccinations, and the Global Fund to Fight AIDS, TB and Malaria; DFID therefore continued to allocate aid to these organizations (DFID 2011a). This is a transparent process that enables DFID to

achieve better results and more efficiently use its funds to reduce poverty, and choose partners and recipients of aid allocations more objectively and equitably.

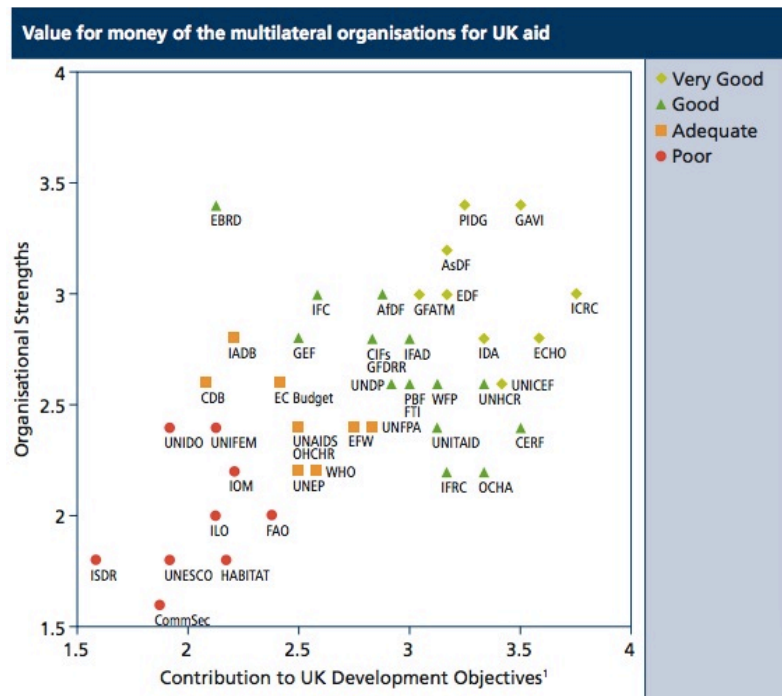


Figure 3: Value for money of the multilateral organizations for UK aid (DFID 2011)

## CONDITIONALITY

The UK incorporates a policy of conditionality that bases aid on three shared commitments with partner governments: poverty reduction and meeting the MDGs; respecting human rights and other international obligations; and strengthening financial management and accountability. If a partner government moves away from these conditions, DFID may suspend, interrupt, delay or change how they deliver the aid. However, in order to achieve more humanitarian results, DFID claims that they will focus on transferring aid from a weak or corrupt country's government to local NGOs and organizations, in order to continue to secure aid access for locals. Despite this policy, DFID claims that conditionality is not mandatory for determining country eligibility for receiving aid (DFID 2009).

## IMPLEMENTATION OF THE PARIS DECLARATION

According to a 2008 OECD report, DFID has consistently considered the Paris Declaration an external obligation, as well as a tool for achieving its own cooperation

objectives (Wood et al. 2008). According to DFID, its model of development places the aid recipient or “partner” country in ‘the driver’s seat’, align the UK aid program with recipient government plans, and harmonize UK aid programs with those of other donors to reduce transaction costs (DFID Annual Report 2012). DFID claims that it has already achieved most of the Paris Declaration targets, and its policies have shown a consistent concern with aid-effectiveness issues such as conditionality, country-led approaches and evaluation for results.

DFID claims to be highly decentralized, with the country offices maintaining a high degree of independence, enabling DFID to commit to the goals of harmonization and alignment. Country offices can be innovative in designing interventions, choose their own delivery modalities and pursue independent aid-effectiveness initiatives (DFID 2011a). Moreover, DFID has created the International Aid Transparency Initiative (IATI) to make aid information and donor information publicly accessible, comparable, accurate and timely. Finally, DFID claims it has a strong approach to performance management and an increasing focus on results, through the establishment of frameworks and guidelines for all levels of organization, with regular reporting from country offices, staff, and departments. Thus, the Paris Declaration has been incorporated explicitly into the departmental performance management system (Wood 2008). However, an evaluation revealed DFID’s capacity to monitor and evaluate its own performance in terms of aid effectiveness is lacking, due to limited commitments regarding country partnerships, complementarily and mutual accountability (Wood et al. 2008).

## MONITORING AND REPORTING

Previous DFID results and performance frameworks relied mostly on monitoring and reporting a country’s global development outcomes, in particular progress towards the MDGs (DFID 2012). While the MDGs remain an essential guidance for the international community on the progress a country has made, DFID has identified that they have proven less useful for measuring the specific impact DFID (or other donors) has had at the country level. For example, there are weaknesses in the data systems of developing countries that affect the availability, quality and timeliness of information, making it difficult to manage for results. Thus, DFID has developed methodological guidance on each bilateral/multilateral indicator to help ensure consistency of measurement across countries and permit meaningful aggregation of results at the country level (DFID 2013).

## TRANSPARENCY

Transparency promotes equity in aid by significantly improving the effectiveness and value achieved through aid arrangements. DFID’s domestic political environment and external accountability mechanisms to the UK Parliament and Treasury support the implementation of the transparency aspects of the Paris Declaration. DFID claims a

'transparency guarantee' (DFID "News Story" 2010) to ensure UK citizens have access to information about where and how the UK's aid budget is being spent. Domestic legislation requires DFID to report annually to Parliament on development policies and programs, the provision of aid to partner countries, and the way aid has been used (DFID "News Story" 2010). In addition, DFID requires recipient governments to commit to improving accountability to their own citizens by making budget information accessible, and allowing citizens to participate in determining how funds are spent. This facilitates communication about any issues and obstacles arising through operations, and discussion of ongoing progress to meeting identified goals. Mutual accountability may also be enhanced, as recipient governments and donors are accountable not only to each other, but also to their own citizens. However, it is worth noting that while each country office creates a results offer to present their budget plan and costs to DFID (as noted above), these offers are not made publicly available, suggesting that transparency gaps remain (DFID 2011).

## 8.3.2 Sida

### INTRODUCTION

The Swedish International Development Cooperation Agency (Sida) is a government agency working on behalf of the Swedish parliament and government, with a mission of reducing world poverty. Every year, the Swedish government describes how Sida should work through Sweden's Policy for Global Development (PGD) (Sida 2013). The PGD states that Sida's overarching goal is to contribute to sustainable and equitable global development. A human rights-based perspective that incorporates poor peoples' views on development is central to the PGD (Regeringskansliet 2008). This approach suggests that equitable development is to be achieved through respect for human rights and democracy, which leads to growth and poverty reduction, with development benefiting all. Sweden views its development assistance role as characterized by solidarity, because 'we have a common responsibility for our world's future', while indicating that it is in Sweden's best interest to work towards these goals (Sida 2013).

### ALLOCATION FRAMEWORK

Sida provides aid through 'long-term development cooperation assistance' packages, which may be bilateral (country or regional assistance) or multilateral (through UNDP, UNICEF, WHO, World Bank, and EU development assistance). Aid is divided approximately equally between bilateral and multilateral allocations, with additional allocation for humanitarian assistance (Sida 2013).

The selection of countries receiving aid is based on political decisions made by the Swedish government. Similar to DFID, Sweden has recently decided to focus on a smaller number of countries, decreasing recipient countries from 125 to 33 countries in Africa, Asia, Europe and Latin America (Sida 2013).

The Swedish Government decides which countries receive aid. However, the decisions are based on the countries with which Sweden has traditionally collaborated. The following four themes are used to guide those decisions:

- How widespread is poverty and where is the need the greatest? Indicators such as average income, child mortality, income distribution and girls' access to education have been taken into account.
- Are the conditions in the country favorable for aid to lead to poverty reduction? How effective will the aid be?
- Is democratic development progressing? If not, will Swedish development cooperation be able to contribute to improved democratic development?
- Has Swedish development cooperation so far been of value to the receiving country? Have companies, ministries, or organizations specifically asked for Swedish competence? (Sida, 2013).

The Swedish government develops a country strategy for each recipient country; Sida then has the responsibility to implement each strategy. Each country strategy lists the goals for aid in that specific country, alignment with national priorities and how collaboration with other donors will be carried out (Sida 2013). As an example, Tanzania's country strategy highlights the Tanzanian Government's existing 'Joint Assistance Strategy' (JAS). The Tanzanian Government had requested more aid in the form of budget support and better aid effectiveness in cooperation, mostly in line with the Paris Declaration. As a result, Sweden is now increasing their portion of budget support to Tanzania as well as a focusing more on harmonization and national ownership (Regeringskansliet 2006).

## HUMAN-RIGHTS BASED APPROACH TO PROGRAMMING

Sida uses a human rights-based perspective as a basis for evaluating potential programs and country collaborations. This is based on four principles: non-discrimination, transparency, participation and accountability. These principles imply that the main responsibility for poverty reduction and development lies with recipient countries. However, Sida also recognizes that flexibility is critical, as the above principles will not always be met in many recipient countries. A lack of transparency, participation, or accountability mechanisms in a particular country might in fact provide reasons to support a certain program rather than to refrain from it. Therefore, the principles are intended more to provide guidance than to be used as a rigid framework for decision-making (Sida staff interview 2013). Sida asserts that there is always a dialogue between Sida and the recipient country on all matters when negotiating details of collaboration, considering issues such as respect for human rights, environmental impacts, gender, how inclusive and transparent the project, and most importantly how poverty and the



perspectives of the poor are integrated into the project (Sida 2013). Based on this evaluation, Sida makes the final decision on programming and collaboration (Sida 2013).

## COUNTRY COLLABORATION AND CONDITIONALITY

Agreements between Sida and recipient governments include a clause on breach of contract and its consequences. By using the human rights-based approach for evaluating potential programs, critical elements of equity are incorporated through conditionality. This indicates the importance of integrating participation, transparency and accountability into programming at an early stage, so that these elements form part of the implementation process itself. This approach also provides a basis for assessing the success of the program, by not only looking at the results, but also at how the process has been carried out. This is done by again using the human-rights based approach as an evaluation tool (Sida staff interview 2013).

Sida's approach to aid is reflective of the growing emphasis on collaboration and partnership, based on mutual terms and responsibility. According to Sida, cooperation is built on mutual interest and responsibility to drive development forward (Sida 2013). Sida does not formally pursue an approach of 'variable geometry', although it uses the concept in the sense of choosing to provide the type of aid most suited to the recipient country (Sida staff interview 2013).

Sida's country budget support aid demonstrates the importance of balancing recipient ownership with conditionality through collaborations. Sida provides a small portion of aid for budget support in areas such as health, education, and improved infrastructure. To qualify, nations must fulfill certain obligations, such as respect for human rights and democracy (Sida 2013). However, previous evaluations by Sida in African countries have shown that such policy conditionality for receipt of budget support frequently was not effective. Critical lessons can, for example, be drawn from Sida's work in Tanzania and Zambia. According to evaluations, programs in these countries involved significant waste of Swedish resources, due to corruption (Dijkstra 2002). Ensuring that there is enough capacity and resources to effectively use the budget support is crucial (Lancaster 1999). Thus, recipient-driven aid can be as ineffective as donor imposed aid if not balanced effectively with appropriate accountability mechanisms, including conditionality and country ownership. Moreover, while giving ownership and responsibility to the recipient country is important, donor credibility will be affected if it continues to provide aid despite the failure of recipient countries to comply with conditions (Dijkstra 2002).

## GRADUATION

Sida does not use a graduation policy to phase out countries from aid; instead, some countries might reach a level of 'maturity' in terms of economic and social development and naturally benefit more from other types of collaboration than traditional forms of aid. For example, Sida is phasing out their aid to China, India and South Africa and

continuing their partnerships in the form of partner-driven cooperation (Sida staff interview 2013).

## PARTNER-DRIVEN COOPERATION

Sida's partner-driven cooperation (PDC) strategy exemplifies the increasing emphasis on partnerships and collaboration through the involvement of other actors in development cooperation. It focuses on 'mutual interests for cooperation' through building partnerships between Sweden and partner countries for poverty alleviation (Sida 2013). In practice, PDC works through an actor in Sweden and an actor in the partner country initiating a partnership that adheres to the recipient country strategy (Sida 2013). Actors that can benefit from PDC include authorities, trade unions, private companies, NGOs, and universities, with administration and financing arrangements governed by principles of shared ownership and responsibility. However, Sida's support is intended to be catalytic, leading to long-term self-support. Past examples of partner-driven cooperation agreements include collaboration between the Swedish Environmental Research Institute and industrial companies in India to share knowledge and generate solutions for avoiding water contamination from production processes (Sida 2013). The PDC strategy therefore facilitates knowledge sharing and exchange that can benefit all actors involved, contributing to a more equitable foundation of collaboration on mutually beneficial terms. However, it should be noted that Sida is currently revising its PDC strategy; while specific details are not yet available, Sida has proposed that it will not tie this approach to specific countries (Sida 2013).

## ACCOUNTABILITY

Programmatic payments by Sida are almost always made incrementally, based on an approach that is pragmatic and constructive, considering the reality of delays and changing contexts. If breaches of contract occur (such as delayed outputs), Sida will commence a dialogue with the implementing party to identify solutions. If necessary, Sida may cancel future payments or recall payments, although this occurs very rarely (Sida staff interview 2013). As an example, in Uganda, employees at Uganda's central bank, the Ministry of Finance, and the Prime Minister's office embezzled finances from Sida and other donors. In February 2013, it was reported that Uganda is now repaying part of the lost aid to Sida, which will reinvest the money in other Ugandan projects (Sida 2013). This example highlights that while flexibility and understanding of context of recipient countries is important, Sida also focuses on achieving results, and highlights the importance of incentives and accountability mechanisms for aid effectiveness (Sida 2013).

## MANAGING FOR RESULTS

Through Sida's approach to managing for results, the implementing party is considered the project owner and is responsible for reporting to Sida, although both parties are responsible for ongoing monitoring. Third party consultants are ordinarily engaged to monitor and evaluate the project. However, Sida is responsible for evaluation and long-term monitoring and outcomes (Sida, 2013) (Sida staff interview, 2013). While Sida places great emphasis on achieving results, it recognizes the importance of pragmatism. As an example, in one program Sida supported, the implementing party, a reputable organization, had not achieved its agreed results. In response, while Sida found it important to put pressure on the implementing party by freezing future payments, having an ongoing dialogue, identifying problems, and developing a strategy for response were also key (Sida staff interview 2013). Thus, while accountability is important, in order to achieve results, the recipient country context must also be considered, presenting a critical lesson for balancing accountability and delivering development results (Sida staff interview 2013).

## PRIVATE SECTOR INVOLVEMENT

Private sector investment in recipient countries is becoming a more important part of providing aid, as it can contribute to poverty reduction through job creation, as well as potentially push for systemic changes in the business environment. There is increasing recognition that the private sector can be involved in ways previously only associated with the non-project sector. Sida is therefore focused on stimulating relationships between Swedish and foreign companies where there are mutual interests and shared responsibility. Sida's increasing focus on private sector development has been carried out through their Business for Development (B4D) project, which aims to engage and stimulate actors from the private sector in poverty reduction. Through this approach, project costs are shared, with the private sector actor required to finance at least 50 percent of the program (Sida staff interview 2013). This assists in lowering the risk threshold in developing countries, which facilitates private investment. One benefit of private sector involvement in development is that public finances invested in aid projects can be more efficient and effective if the private sector partner provides additional or matching funding. In addition, the private sector can make key contributions by providing knowledge, capacity and technology for aid projects. However, as Sida operationalizes equity with the goal that development should benefit all, in alignment with Sida's human rights-based approach, private sector involvement should also be carefully aligned with the principle of participation (Sida staff interview 2013). As a result, it is clear that a thorough evaluation of private sector projects selected for incorporation in Sida's B4D project is critical.

## IMPLEMENTATION OF THE PARIS DECLARATION

The themes used by the Swedish government for selecting aid recipients, discussed above, are targeted to aid effectiveness and are derived from the Paris Declaration.

However, it is difficult to say how much of the change in Swedish development cooperation is due to the Paris Declaration, since many elements of the declaration were already present in Sweden's development work before 2005 (SADEV 2010). Evaluations of Sida have identified that progress has been made in addressing the Paris Principles, especially harmonization and alignment (SADEV 2010). Since the Busan meeting of the Paris process, Sida has continued their focus on results, transparency and the private sector in order to continue its efforts regarding the Paris Principles. For example, anti-corruption programs have recently been a higher priority for resource allocation, and access to aid information is being promoted through the launch of a new website (OECD 2011). However, much remains to be done to implement other Paris principles, including managing for results and mutual accountability (SADEV 2010).

### 8.3.3 USAID

#### INTRODUCTION

In contrast to the other national aid agencies this report examines, DFID and SIDA, U.S. foreign assistance is transparent in having a two-fold purpose. This involves firstly, advancing America's foreign policy interests in the context of expanding free markets and secondly, improving the lives of people in developing countries (USAID 2013). These dual priorities are important to note when considering the balance between national interests and providing foreign assistance.

#### ALLOCATION FRAMEWORK

USAID uses the World Bank income group measure to assess their obligations; low-income countries receive nearly a third of all U.S. economic assistance (USAID 2011). A Results Framework is used to define the development hypothesis for the particular country. It is based on evidence (specific assessments and evaluations) that illustrates why USAID should reasonably expect a specific investment will produce targeted development impacts, and that these impacts are cost-effective compared to other possible interventions (USAID 2011). Importantly, Results Frameworks also specify assumptions of non-USAID interventions that may be necessary to achieve certain development goals, such as host country commitments, investments and results from other donors, and other factors outside of USAID's control. USAID recognizes the importance of an enabling environment, as country-specific dynamics are observed and considered by USAID when making resource allocation decisions. As illustrated in this example of the World Bank's income group measure, USAID often utilizes measuring standards from other sources rather than developing new ones.

## RESILIENCE AGENDA

USAID is currently promoting a new agenda based around the concept of resilience, which is defined as *“the ability of people, households, communities, countries, and systems to mitigate, adapt to, and recover from shocks and stresses in a manner that reduces chronic vulnerability and facilitates inclusive growth”* (USAID 2012). This represents a growing trend in the aid community’s attempt to make assistance go further and contribute to longer-term, more lasting results, and shifting towards more multi-layered programs, with stronger integration between types of aid. Part of this approach involves bridging the gap between development and humanitarian assistance, which have traditionally been divided. These programs are no longer developed as stand-alone projects, with an agenda focused on completion. Instead, they are now designed as a platform for new development investments to be built upon, with the intention that they will grow and continue. Kenya is one example where USAID economic growth investments in arid lands have been integrated and layered on top of existing UN World Food Programme projects, with sequenced investments building on the original three-year recovery program.

USAID plans to apply the resilience principles to new and existing projects based on the initial success of two projects: the Horn of Africa and the Sahel Joint Planning Cells. USAID selects countries appropriate for this approach based on the criteria displayed in Figure 5 below.

Recurrent Crisis	<ul style="list-style-type: none"> <li>• Historically high levels of USAID humanitarian assistance in areas of chronic vulnerability</li> </ul>
Vulnerability	<ul style="list-style-type: none"> <li>• High rates of chronic poverty</li> <li>• Persistently high acute malnutrition</li> <li>• Persistent humanitarian caseloads</li> <li>• Conflict/fragility risk</li> <li>• Exposure to hazards, including natural hazards</li> </ul>
Enabling Environment	<ul style="list-style-type: none"> <li>• Political will and institutional performance</li> <li>• Effective and responsive leadership at the local, national, and regional levels</li> <li>• Resilience activities already underway by partner countries and communities</li> <li>• Minimum level of security exists to achieve resilience objectives</li> </ul>
Comparative Advantage	<ul style="list-style-type: none"> <li>• Existing USAID humanitarian programs</li> <li>• Existing USAID development programs</li> <li>• Programs, presence, and capabilities of other U.S. Government agencies</li> </ul>

Figure 5: Selection Criteria for USAID Resilience strategy focus countries

## JOINT PLANNING CELLS

The 2011 drought in the Horn of Africa prompted USAID to take a new approach to assistance, as responses to previous droughts had limited long-term impacts. This new approach was also driven by evidence of resource degradation, climate change and weak governance in the region. The Horn of Africa Joint Planning Cell (JPC) aimed to build resilience among chronically vulnerable populations by “comprehensively addressing the root causes of their vulnerability and facilitating inclusive economic growth” (USAID 2012). The JPC mechanism involves a detailed analysis on what the drivers of change are in the region and how to prioritize new investments. Each one of the listed resilience criteria (Figure 1 above) has specific technical tools on how to assess and measure them. The next step involves geographic targeting of selected prioritization areas across the region, based on vulnerability, comparative advantage and an enabling environment. Specific adaptations and innovations for the particular region are identified, and the JPC framework is then finalised. USAID places emphasis on evaluation as well as integration with the wider donor community’s goals, specifically the EU donors and external coordination mechanisms (USAID 2012).

This method of planning aid and development assistance demonstrates the success of a more integrated and sequenced approach, through the prioritization of countries and livelihood zones for additional and continued investment, based vulnerability assessments. This represents a more equitable form of assistance by targeting those most in need and vulnerable. It also builds on existing efforts, by utilizing local resilience adaptation projects that are already established. For these reasons, and the fact that it has so far been replicated twice, this USAID planning system appears to be successful in better distributing aid in emergencies. It also highlights the an emerging need for more integrated approaches and the ‘pooling-together’ of resources in a strained global economic environment, which also represents a manner of achieving equity in distributing assistance.

## PARTNERSHIPS AND THE PRIVATE SECTOR

USAID engages in partnerships at varying levels, again depending on the presence of an enabling environment. The Global Development Alliance is a USAID program that demonstrates a move away from traditional aid practices by fostering greater public-private partnerships in the business environment. It is a market-based business model for partnerships with the private sector, based on the assumption that the expansion of free markets represents benefits to both donors and recipients alike. Through this approach, USAID incorporates a framework that is useful in ensuring equity of partner selection in the private sector. A partner is considered if it meets the following criteria:

- “At least 1:1 leverage (in cash and in-kind) of USAID resources;
- Common goals defined for all partners;
- Jointly-defined solution to a social or economic development problem;
- Non-traditional resource partners (companies, foundations, etc.);

- Shared resources, risks and results, with a preference for increased scale of impact; and
- Innovative, sustainable approaches to development” (USAID 2013a).

These criteria help to ensure that development goals still remain the focus of projects identified through this model. USAID regularly convenes private sector forums in the recipient country to provide potential partners an opportunity for dialogue, and to encourage networking in order to facilitate this program.

## THE MILLENNIUM CHALLENGE COOPERATION

The Millennium Challenge Corporation (MCC) is another business model approach to development assistance that is utilized by USAID, and may offer insights to the effectiveness of business-based models and combined criteria approaches to recipient eligibility. Assistance from the MCC requires country eligibility criteria in three categories: ‘ruling justly’, ‘economic freedom’ and ‘investment in people’ (MCC 2013). These categories then have seventeen indicators based on criteria set by the World Bank Institute, Freedom House, UNESCO, WHO and IFAD/IFC. A country is considered eligible for grants if its score on the indicators is greater than the median score of its peer group. Additionally, a ‘threshold program’ allows certain countries that have not met eligibility criteria but are ‘committed to reform and improving performance for future eligibility’ to become recipients of this program (MCC 2013). The initiative operates autonomously and can choose to design initiatives independent of USAID’s goals and objectives, although it has not done so to date.

MCC funding is driven by country-led solutions and country-led implementation principles. The aid is distributed in five-year grants, awarded to development projects that the recipient country proposes, and explicitly avoids political implications on both sides of the donor-recipient partnership. For example, countries identify their own priorities for achieving economic growth and develop their own proposals; they also establish their own in-country, accountable entity to manage implementation, with monitoring frequently conducted by independent fiscal agents.

While some development agencies have critiqued the MCC, this has generally been based on funding limitations, and not the system approach and indicators. The Brookings Institute, however, critiques the seventeen indicators used by the MCC based on the fact that they remain too flexible; on the other hand, it applauds the use and publication of updated country “scorecards” on the MCC web site each year and sees this as an unprecedented level of visibility in the linking of country performance to donor assistance (Fox and Rieffel 2012). It was found that eligible countries improved their indicators significantly after the MCC was established, and faster than developing countries not eligible for the MCC grants. The successful mechanisms that underlie the MCC grants may be transferable to other sectors, as they not only enhance country ownership and accountability, but also remove the political context of the donor agency. This is particularly evident when the funds are distributed through a donor such as USAID,

which typically has a clear political motivation behind their own foreign assistance policies and programs.

## TIED AID AND CONDITIONALITY

Tied aid is defined as aid that must be spent in the country providing the aid (the donor country) or in a group of selected countries. USAID has traditionally exclusively sourced commodities and goods from American companies in accordance with the 1961 Foreign Assistance Act. This began to change due to the challenges of balancing the U.S. budget deficit with the high costs of compliance. It had also become increasingly difficult to prove the origin of many commodities in a globalized economy, something that may also be observed in other international environmental treaties and trade agreements. Recently USAID has also reduced the proportion of aid that is tied in recent years, a move which has been attributed to 2008 OECD reform recommendations and a declining U.S. budget for foreign assistance. In February 2012, USAID announced changes to its procurement regulations regarding contracting to foreign companies, significantly reducing potential for tied aid. Recent additional reforms are continuing on the issue of food aid, which has long involved the purchase of U.S. cereal grains, supporting U.S. agricultural interests and subsidies, and the use of U.S. companies to ship this food aid to developing nations (USAID 2013). Thus, the need for budgetary reform, coupled with international pressures against the constraints imposed by this approach to aid, has resulted in changed policies.

## IMPLEMENTATION OF THE PARIS DECLARATION

In 2010, a third party evaluation of the implementation of the Paris Declaration by U.S. Government agencies including USAID, offered several key lessons for consideration. This evaluation found that prior to 2008, the Paris Declaration and the Accra Agenda for Action were not well understood by USAID or other U.S. agencies, and were poorly incorporated into strategic project design and implementation. After that time, USAID initiated a strong effort to increase awareness of and commitment to the principles (Blue and Eriksson 2011). This can be attributed to pressure from OECD on USAID to reduce tied aid and increase transparency. The evaluation concluded that in its current trajectory, the U.S. government will never achieve full compliance with the Paris process, as to do so would require too significant a change in the way U.S. interests influence both domestic and foreign assistance (Blue and Eriksson 2011). Full compliance would also require significant change in the regimes of some partner countries.

The USAID reform package of 2010, USAID Forward, which resulted from a drive for cost efficiency and program sustainability, may also have contributed to this commitment to aid effectiveness. For example, USAID has aligned more closely with concepts of the Paris Declaration principles by promoting more locally-driven development initiatives and high-impact partnerships with a focus on long-term capacity building. The reform has also resulted in more technology adoption and partnerships with the scientific and academic communities. The Centre for Global Development lists several improvements



to USAID programming through the reform package, such as improved evaluation practices, refined selectivity of country areas for assistance and the development of new mobile technologies. However, there remains a lack of data on how USAID actually invests and how it measures its results (CGD 2012). Transparency of monitoring and evaluation results has reportedly improved with the adoption of new technology, such as mobile applications. However, the Centre for Global Development identified a critical lack of transparency for the underlying core data behind USAID progress reports.



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