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Inside the Black Box:

Contributions to the discussion on official development assistance

**Editors: Ian Freeman, Tamara A. Kool, Charles Low, Sam Salsal
and Emilia Toczydlowska**

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Inside the Black Box: Contributions to the Discussion on Official Development Assistance

Ian Freeman, Tamara A. Kool, Charles Low, Emilia Toczydlowska & Sam Salsal (Eds.)



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Ian Freeman, Tamara A. Kool,
Charles Low, Sam Salsal &
Emilia Toczydlowska

April 2015

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From the Editors

Ian Freeman, Tamara A. Kool, Charles Low,
Sam Salsal & Emilia Toczydlowska

The effectiveness of Official Development Assistance (ODA) has a disputed reputation. The emergence of new donors and the recent establishment of novel development actors, such as the BRICS-powered ‘New Development Bank’, will complement – in limited cases potentially substitute – traditional financial flows and development cooperation. We believe that this transition in the geo-political landscape of development assistance presents a tremendous opportunity for traditional donors and recipients of ODA to reassess and possibly refine development cooperation, ultimately leading to improved ODA delivery and an opening of the ‘*black box of development assistance*’.

Inside the Black Box invited University students and future leaders from all over the world to submit innovative, original, and tangible ideas on how to best improve ODA’s effectiveness. The response has been overwhelming, with a wide spectrum of ideas coming from North and South America, Asia and Pacific, Africa, and Europe. Right from the beginning, **Inside the Black Box**’s aim has been to produce an authentic and global deliverable, serving leading politicians and officials connected to the development sector as a source of inspiration. Therefore, we proudly present our selection of entries to be disseminated among leading decision-makers around the world.

Presented ideas range from:

1. reducing status barriers between ODA workers and community members;
2. policy tools to alleviate under-reporting;
3. increased investment in cross-sector collaboration;
4. placing subnational governments at the center of the development discourse;
5. enhanced institutional procurement strategies;
6. the establishment of a supranational anti-corruption organization;
7. targeting the roots of development;
8. improving local ownership and alignment of ODA with recipient government priorities;

9. facilitating growth and transparent aid management; to
10. prioritizing regional over global development assistance.

This rich and fruitful compilation has been made possible through extensive global media coverage. Therefore, **Inside the Black Box** would like to thank the following organizations for their fantastic formal and informal support throughout this unique initiative: the **OECD**, **United Nations University – Maastricht Economic and social Research institute on Innovation and Technology** (UNU-MERIT), **German Development Institute**/ Deutsches Institut für Entwicklungspolitik (DIE), **Clingendael** – Netherlands Institute of International Relations, **Foreign Policy Research Institute** (USA), and the **Effective Development Group** (Australia).

In particular, we would like to thank our judges: Sarah Holzapfel (German Development Institute), David Hearle (Effective Development Group), Maia Otashvili (Foreign Policy Research Institute), Tobias Broich (UNU-MERIT), Sam Salsal and Emilia Toczydlowska (Inside the Black Box) for dedicating part of their time to serve as judges on the competition.

Inside the Black Box hopes this compilation invites you to thought, and wishes you a good read.

Disclaimer: This working paper and its contents represent the opinions of the respective authors and not that of any institutions, organizations or brands to which the authors are affiliated to in any capacity.

Introduction

Sam Salsal and Emilia Toczydlowska

What is ODA?

To understand the issues related to Official Development Assistance, untangling its definition and composition is crucial as the concept of ‘aid’ – in its connotation with ODA – may have many unexplained and intertwined meanings. ODA as a term was first used in 1969 by the Development Assistance Committee (DAC), a directorate of the Organisation for Economic Co-operation and Development (OECD) and since then, it has undergone a number of redefinitions. Simply stated, it is official financing or other forms of assistance, given by donor organizations or governments to developing countries to promote and implement development. Aid may take the form of any kind of development assistance and can be divided into three sub-categories: (1) bilateral grants consisting of technical cooperation, developmental food aid, emergency and distress relief, debt forgiveness or administrative costs; (2) bilateral loans, either being concessional or not concessional; (3) contributions of multilateral institutions such as International Monetary Fund (IMF) or World Bank (WB), usually taking the form of project or program assistance. Tied aid has different kinds of conditionality attached while untied aid usually takes the form of unconditional transfer. Our understanding of aid will relate to any form of ODA, unless specified otherwise.

Despite decades-long international efforts and demands for ‘good’ governance, ODA effectiveness has a controversial record. Increasing amounts of ODA have been navigated towards the African continent. Economic development however failed to materialize even though it was supposed to be facilitated. While the bleak economic development record in recipient countries can be attributed to many factors, it undoubtedly did not add to positive views on aid effectiveness. Figure 1 illustrates the divergent relationship between increasing aid as percentage of Gross National Income (GNI) and growth of Gross Domestic Product (GDP) per capita in Africa.

Explanations of this mismatch exist in multitude and the literature on this topic is vast and detailed. It highlights issues, such as incoherence of individual donor requirements; failure of assistance packages to promote economic growth and/or a general misalignment of donor-recipient incentives.

Donor countries often not only provide multilateral aid but also conduct bilateral development policies with subordinated aid agencies. This is problematic insofar

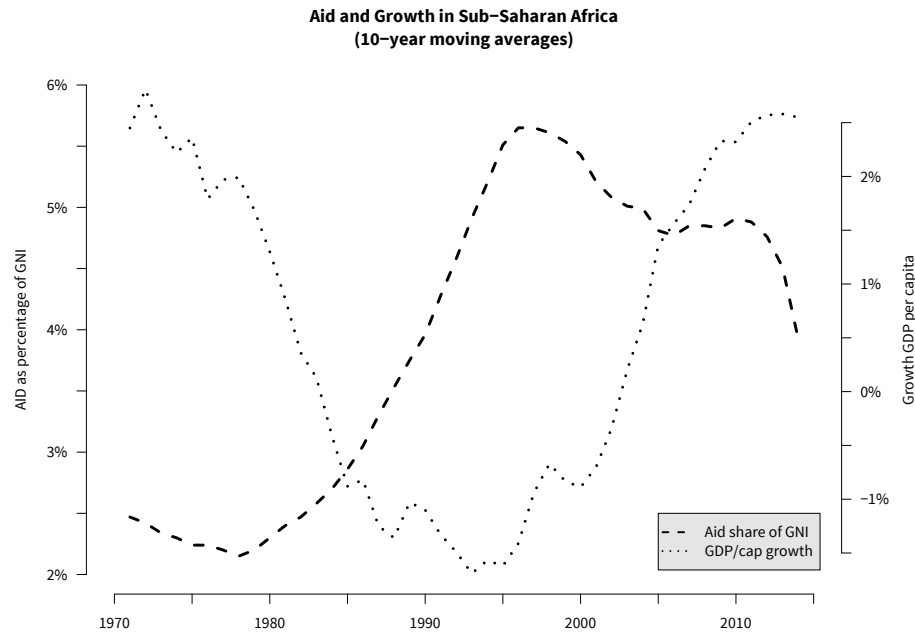


Figure 1: Aid and Growth in Africa. Source: World Bank (2015)

as “each aid agency requires local officials to meet, to respond to their demands, to report to them (in formats only they use) and sometimes to alter at the whim of the donor” (Woods, 2008, p. 1218). Consequentially, the establishment of institutions for bilateral and multilateral coordination is required. Due to the fact that at times each institution deals with unique bilateral specifications, coordination between these institutions lacks sufficient correspondence. Hence, recipients face the problem of institutions and agencies “pursuing similar goals in a country where they trip over one another, producing duplication and waste, and overwhelmingly overstretched recipients with more red tape, reporting requirements and loan negotiations” (Woods, 2005, p. 395).

Some ODA initiatives have been “associated with reduced investment” (Riddell, 2007, p. 243) while “declining economic growth of recipient countries is attributed to constraints by conditionality” (Killick, 1997, p. 486). This becomes apparent when taking into consideration that “15 out of 25 adjusted African countries were still judged to have ‘poor’ or ‘very poor’ macroeconomic policy stances in 1991-92 even though between them these 25 countries received 100 World Bank adjustment credits since 1980” (Killick, 1997, p. 486). Consequentially, large numbers of recipients throughout the continent have increasingly become more skeptical towards conditionality, as they are “perceiving the political and economic costs to be too high” (Riddell, 2007, p. 237).

Finally, it is suggested that incoherence, failure to promote economic growth, and non-willingness to submit to demands of ‘former colonists’ altogether cause a misalignment of incentives. Maximization of “more than one party’s utility requires some form of cooperative action [...but ...] the objective functions of the parties dif-

fer” (Killick, 1997, p. 487). This misalignment is combined with the relative inability to oversee conditionality implementation and/or to enforce conditionality (Hermes and Lensink, 2001, p. 8).

The current ODA-effectiveness debate tends to be dominated by a static and instrumental view of development processes, that aid becomes effective when the ‘right’ policies and institutions are in place. Donors ought to recognize that development is a continuous process where the ‘right’ outcomes are the result of the gradual and often unpredictable developments of local institutions and sociopolitical configurations. Seen from this alternative perspective, development management becomes more process-oriented rather than output-oriented.

Inside the Black Box

There is a need to create an environment conducive to mutual learning. If aid relationships are characterized by mutual trust and confidence, development aid would be a channel for close interactions of numerous stakeholders, which can over time evolve into dynamic institutions, adaptable to changing local conditions with flexibility and resilience.

Jerve and Nissanke’s (2007) revolutionary approach suggests opening the ‘black box of aid’ and breaking down the chain of aid. It is necessary to focus more on the reasons that bring states negative policy outcomes, instead of penalizing them for not meeting donors’ own very specific understanding of a good policy. The ‘opening of the black box’ incorporates a gradual institutional change and improved donor-recipient cooperation.

Inspired by the idea of ‘opening the black box’, **Inside the Black Box** invited university students and future leaders from all over the world to submit innovative, original, and tangible ideas on how to best improve ODA’s effectiveness. Participants presented ideas and stressed areas where ODA can improve and point towards a right direction despite the intertwined maze of aid ineffectiveness.

For example, it is recommended to adapt ODA’s reality in response to local heterogeneities in terms of demand for development. The dynamic relationship between international and domestic political environments calls for more flexible ODA modalities. In this sense, regional development policies deserve special attention since they balance considerations of local diversity with the need to aggregate regional strategies coherently at the national level (Charbit, 2011). Therefore, it is proposed that transnational aid structures should be decomposed from hard interstate relationships into more flexible multilevel aid structures. These should involve private actors from both sides, as well as subnational governments and other actors. Hence, subnational governments are placed at the center of the development discussion (see Chapter 8).

Others stress the importance of investment in cross-sector collaboration to implement effective strategies (see Chapter 7). Aid should not only originate from bilateral or multilateral public services and non-governmental organizations (NGOs), but also from the private sector within cross-sector partnerships. It needs to be emphasized however, that for cross-sector partnerships to work, two conditions need to

be met: First, there is no universal corporate social responsibility model that can be applied and second, it needs to be facilitated by a diverse set of people incorporating locals who have a better knowledge of their environment. Recipient countries of ODA greatly benefit from the effects of foreign aid, but long-term development goals, such as eradicating poverty and bringing about prosperity cannot be fought by one single sector. Top-down approaches to foreign aid partly appear to be ineffective due to their lack of entrepreneurship promotion that is essential to developing countries' economic stability. Therefore, cross-sector collaboration supported by development aid has key importance in the facilitation of change on economic, political, environmental and social levels while taking on a grassroots approach (Sappal, 2013).

ODA should also target the roots of development (see Chapter 5). Countries should have 'inclusive' institutions that protect private property, enforce the rule of law, create a business-friendly environment, promote the right incentives for people to progress and allow the necessary process of creative destruction that triggers innovation. Such countries not only develop themselves, but do so in a sustainable way. Hence, aid effectiveness faces a fundamental problem which is not related to its intrinsic validity. In the absence of inclusive institutions, ODA can do at best little good and at worst be counterproductive as it might empower governments to repress their citizens' rights instead of promoting development. ODA should aim at empowering societies and protecting people's civil rights so that they can claim better institutional quality and prompt organic, internal growth.

Furthermore, recent Chinese developmental flows into Africa are recognized and the need to work around limitations of aid transparency is highlighted (see Chapter 6). Chinese aid and investments into Africa appears to lack transparency relative to other global players. However, having a clear picture of aid flows into developing countries is of unquestionable importance. Ideally, it informs the formulation of effective policy that ensures maximum benefits and guards against corruption and other misappropriations. Hence, it is recommended to develop a Common Position in Relation to China (CASC). CASC would be a coalition of African governments, private companies and other African organisations from recipient states that maintain Sino-African economic relations. This coalition would collaborate with the Forum for China-Africa Cooperation (FOCAC), other African multilaterals, and private partnerships to ensure the facilitation of the following goals: African integration into global value chains and intra-African trade; industrialization; technology and skills transfer and innovation. CASC would exist to negotiate conditions under which Chinese aid and investment activities into Africa would yield maximum benefits for citizens and also be equipped with tools to enforce these terms.

Corruption is, undoubtedly, subverting aid into harm (see Chapter 4). Often ODA is provided as a loan to be repaid. If funding is misappropriated, it leaves the country in debt with no associated development. This in turn encourages donor countries to give aid to less corrupt countries. Social institutions make it extremely difficult to build adequate support for change. Hence, the solution must be twofold: (1) adequate laws must be written and (2) a transparent, independent organization with deferred and supreme legislative authority must enforce them, free from deleterious social institutions. The proposed method is of the carrot-and-stick variety. It deters non-compliance with threats of international sanctions and rewards compliance with increased diplomatic relations, including the amount of aid provided.

Chapter 1 proposes five pillars for increased aid effectiveness: more aid for growth, microfinance-driven social aid, capacity development, improved accountability and good governance. This implies encouragement of donors to implement the 0.7% of GNI aid commitment to expand the share of ODA allocated to growth and target it to modifiable growth determinants such as transport and energy infrastructure; technology and efficiency; engagement with private sector; and openness to trade. This is also linked to the need to focus on capacity development to achieve required levels of skills. The author also calls for microfinance strategies as most rural areas in developing countries present fertile grounds for microfinance. Where good governance appears non-attainable, 'good enough governance' which also permits development should be considered. Efforts should focus on growth-enhancing elements of governance, especially 'political stability' and 'state capacity'. Track records of development results against funding should be stressed as they provide crucial information for evidence-based decision making. Without proper accountability there is less incentive to achieve developmental objectives.

Chapter 2 argues for the need to break down status barriers between development workers, local practitioners, and community members by integrating development workers into more typical ways of living in beneficiary countries. Rather than budgeting for four-star hotels and high-end restaurants, ODA organizations should connect with partnering organizations to arrange accommodation in local residences or guesthouses. Numerous studies have criticized top-down approaches to development for both ethical and pragmatic reasons, whereas partnership building with beneficiaries has been linked to increased sustainability of interventions (Unwin, 2009, for example). Instead of imparting knowledge and practices from the 'developed' to the 'developing' world, the idea of participatory development is that practitioners and community members work together to create solutions that are locally relevant. Many participatory approaches have failed to attain a decentralized model and to take local knowledge and values seriously (Hall and Nahdy, 1999; Cooke and Kothari, 2001; Guijt and Kaul, 1998, for example). Local empowerment in development projects requires a shift in power relations between development workers and community members, such that community knowledge plays a central role in planning processes.

Finally, it is recognized that improving aid effectiveness is linked to overcoming existent bottlenecks (see Chapter 3). For instance, initiatives linked to combating HIV/AIDS have received substantial amounts of ODA, neglecting other key health priorities. Moreover, some critics also argue that increased ODA for health has not translated into improved institutional service delivery. In Uganda, HIV prevalence remained stagnant for six years while, despite increased inflow of aid, institutional delivery remained below 30% for about four years (Piva and Dodd, 2009). At the same time, there have been numerous complaints by recipient governments about delays of commitment disbursements. Delays in disbursing commitments result in aid being unreliable, distorting countries' program planning and implementation capacities, and eventually reducing effectiveness of aid. For ODA to be effective, the key priority should therefore be to ensure sustainability of all aid-related projects for continuity in the absence of donors.

Chapter 1

Towards More Effective Official Development Assistance

Michel Kasusa Makinga

1.1 Introduction

This chapter briefly examines why Official Development Assistance fails and what can be done to unlock the aid logjam. It comprises four sections: an introduction followed by the second section which reviews reasons for aid failure in the literature, and the third section as an insight into better ways for aid effectiveness. The fourth section includes a conclusion and a set of suggestions.

1.2 Setting the Scene: A Framework for Understanding ODA

The history of aid goes back to the 19th century but officially the concept of ODA was first used in 1969. Since then, donors have devised several aid funding modalities and implementation partnerships to deliver aid to recipient countries. In 2008, the OECD defined ODA as the financial flows from donor governments to promote economic development in recipient countries with a grant component of at least 25%.

To start with aid funding modalities, indeed there is not one single way of defining or classifying them. However, several authors, including Dickinson and Hansen (2012) agree that aid is delivered to recipient countries either through General Budget Support (GBS), Sector-Wide Approach (SWAP) or Project-Based Approach.¹

Each of these modalities are at the same time lauded and criticized for its advantages and disadvantages. GBS, for instance, is on the one hand lauded for fostering ownership of development interventions by recipient countries, while on the

¹For a more in-depth explanation on these terms, please see Dickinson and Hansen (2012).

other hand, it is criticized for its higher risk of aid theft and capture especially in instances where governmental institutions are weak. Further joint funding modalities and projects are welcomed for insulating aid from corrupt bureaucrats. Nevertheless, the Project Based Approach is criticized for the higher transaction costs, aid fragmentation and weak downwards accountability. In fact, this approach results in managers answering to donors (upwards accountability) rather than to the recipient governments or civil society and beneficiaries (downward accountability), thus undermining aid effectiveness.

As for the implementation partners, these can be classified into state and non-state partners. Non-state partners include multilateral institutions such as United Nations (UN) agencies, international and local NGOs, and private sector contractors. In poor governance settings, altruistic donors usually turn to non-state partners to bypass corrupt government partners and thereby counter aid theft.

Having said that, it is nonetheless worth noting that there are quite a good number of success stories in the history of aid. Europe's Marshall Plan, South-East Asian countries and Taiwan are such cases. However, only very few successes have been reported since aid's expansion to other developing countries, thus sparking questions as to why aid fails and what can be done about it.

This question is subject to heated debates in literature. For instance, Acharya et al. (2006) attribute aid failure to the proliferation of donors and aid delivery channels that increase transaction costs. Conversely, Braughtigam (2009) argues that aid failure is a collective action issue resulting from competing interests, donor selfishness, principal agent problems and the likes.² For example, selfish donors may be governed by non-developmental objectives to secure political and economic gains. They would allocate more aid to some countries not for the quality of their governance institutions but due to historical colonial ties. Also, they would turn a blind eye to corrupt practices in recipient countries to protect their political/economic interests resulting in undermining of aid effectiveness. Other authors, including Moyo (2009a), suggest that Africa should just quit aid as aid is responsible for Africa's ill economies and corrupt leadership; this is not my view in this paper.

Unlike Moyo, I argue that aid fails because firstly, only a limited share of aid is used to support growth and secondly, aid management is not transparent enough. Haïti and her multibillion aid fund exemplifies this. Further, capacity development and microfinance products are two missing links to aid effectiveness as I observed at the Kibungo hospital, Rwanda, between 1999-2000. This 'aid-built' hospital with state-of-the-art equipment did not impact the households' welfare to the extent hoped for because the households could not afford the costs and at that time, local doctors could not operate most of its equipment.

The lack of association between aid and growth sometimes prevalent in literature is not due to aid being deprived of growth generating power but rather due to wrong investments of aid. Growth cannot come from those hospitals and schools, constructed with aid money, with only few people who have access to them because most are too poor. Some reforms are therefore required if we want to make aid more effective, an issue I will discuss in the next section.

²For an in-depth explanation, please see Braughtigam (2009).

1.3 Better Ways for Aid Effectiveness

To make aid more effective, I propose to adhere to the following two principles and five pillars:

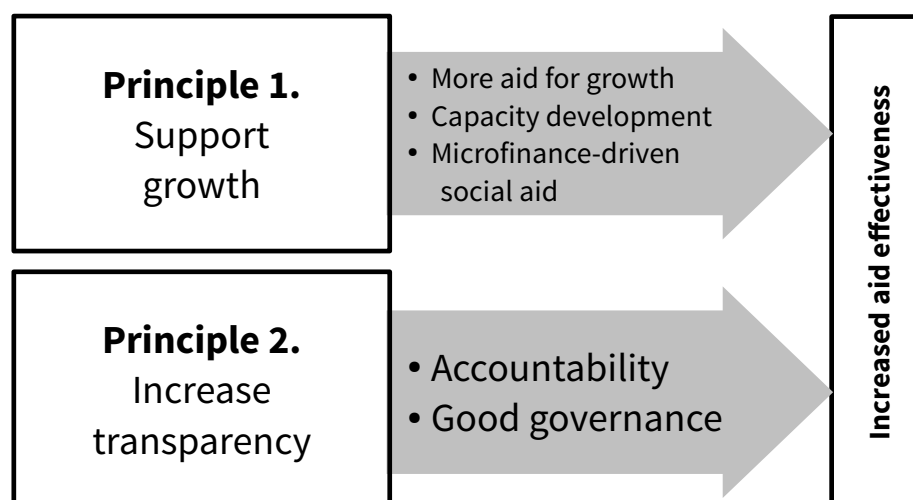


Figure 1.1: Framework for increased ODA effectiveness

Principle 1. Support Growth

Pillar 1: More Aid for Growth

Encourage donors to implement the 0.7% GNI aid commitment to expand the share of ODA allocated to growth, and focus on modifiable growth determinants, notably:

- Transport and energy infrastructures;
- Technology and efficiency;
- Engagement with private sector; and,
- Openness to trade.

Pillar 2: Capacity Development

History teaches that post-war Europe was poor as all basic infrastructures were destroyed. However, Europe had skilled labor, experienced managers and entrepreneurs, relatively competent public administrations and reasonably efficient legal and financial institutions (Svensson, 2006). ODA should boost ‘capacity development’ to achieve comparable levels of skills.

Pillar 3: Microfinance-driven Social Aid

Instead of focusing on the construction of schools and/or hospitals, I propose to incorporate a full package combining:

- Structure/facility (e.g. a hospital);
- Microcredit;
- Micro-insurance scheme; and,
- Capacity development.

This approach has been successfully tested by Handicap International in Kinshasa though they did not include a capacity development component. Poor households are able to afford school fees for children, membership and user fees to a micro-insurance scheme thanks to microcredit returns, and thus are able to access care and education. I am convinced if properly managed, this approach can be successfully and easily applied in settings where extreme poverty prevails, the informal sector is large, and the banking penetration rate is low. Most rural areas in developing countries meet these characteristics and are therefore fertile grounds for microfinance. Yet, a microfinance strategy is not strongly recommended when there is a higher banking penetration rate. In such instances most needs are met by the existing banking system and the need for microfinance products would be very slim.

In fact, I advocate for microfinance as it has been instrumental in alleviating extreme poverty in several settings across Asia, Africa and Latin America. In Bangladesh, microfinance is often cited as a policy success story (Hulme and Moore, 2006). Referring to Indonesia's Village Banking system, Miyashita (2000) describes microfinance as a proven method of reducing poverty. In Africa the Group of Common Initiatives of the Women Farmers of Bogso (GICPAB) in Cameroon, the African Traditional Responsive Banking (ATRB) in Nigeria can be mentioned amongst hundreds of success stories. Further to this, in a study covering 346 world leading microfinance institutions and roughly 18 million borrowers, the World Bank concluded that microfinance requires viable institutions that maintain high rates of repayment (Cull et al., 2008).

Even if microfinance institutions are sometimes criticized, it is worth noting that throughout its history success outweighs failure. Failure when it occurs is usually due to one component or a mix of the following factors: methodological flaws, systematic fraud, uncontrolled growth, loss of focus, design flaws and state interventions (Marulanda et al., 2010). Fortunately, as Ledgerwood (2000) posits, these flaws can be countered by proper risk management, increased accountability, strong control mechanisms and good governance of microfinance institutions.

Principle 2. Increase Transparency

Pillar 4: Accountability

Accountability matters a great deal in development interventions. It enables development partners to track development results against funding. It provides informa-

tion about what money goes where, for which reason, and how. It also provides crucial information for evidence-based decision-making. Without proper accountability there is less incentives to achieve developmental objectives. Donors and recipient countries should therefore be encouraged to implement the National Evaluation Capacity Development (NECD) strategy through building:

- Developmental leaderships;
- Capacity to supply Monitoring & Evaluation (M&E) information;
- Capacity to use M&E information; and,
- M&E infrastructure (UNEG, 2012).

Pillar 5: Good Governance

Where good governance would not be achievable then ‘good enough governance’ that permits development, should be considered. Efforts should focus on ‘growth-enhancing elements’ of governance, especially ‘political stability’ and ‘state capacity’. We know that market-enhancing elements of governance such as complex legal rules are costly for poor countries (Fritz and Menoccal, 2007). Depending on the governmental level, the following aid modalities should be considered:

- Sector-wide approach in good enough governance settings; and
- General Budget Support only in good governance settings. There is no room for blind GBS.

1.4 Conclusion

This paper briefly examines why ODA is not as effective as expected. It also proposes a set of solutions for increasing aid effectiveness. As a way forward, I would propose a threefold approach. Firstly, the OECD should encourage donors to abide by the 0.7% GNI commitment. The extra-resources generated should add on to the current share of ODA for growth and used to support growth-generating sectors as listed above. Secondly, each development intervention ought to include capacity development and microfinance as components where relevant. Lastly, the OECD should consider transparency as a crosscutting evaluation criterion in addition to the five basic criteria indicated above.

Chapter 2

From Discourse to Practice: Reducing Status Barriers Between ODA Workers and Community Members

Sarah Wagner

Across from the Independence Square in downtown Dakar sits the four-star Pullman hotel — a French-owned chain—buzzing with overseas officials. For many locals it is the assumed place of stay for conference attendees and other development workers (personal observation, 04/2014). On the other side of the continent in Kampala a cluster of four-star chain hotels – such as the Sheraton – plays a similar role, conveniently located in the same hill-top neighborhood as organizations that implement Official Development Assistance, such as the United Nations Development Program (UNDP). Per diem allowances for employees of multilateral and bilateral aid organizations provide ample funding for the use of top-end hotels and restaurants. As seen in Figure 2.1, daily allowances can be more than six times the amount of the average monthly income for residents of the visit country. While an obvious line of argument in respect to ODA organizations' per diems may relate to cost-saving measures or the importance of supporting local businesses, I suggest another reason for changing the structure of per diem allowances. As already recognized in the abundant discourse on local participation and grassroots development, a pivotal issue for the sustainability of development projects is the connections made with community members. Thus, I argue we need to breakdown the status barriers between development workers, local practitioners and community members by integrating development workers into more typical ways of living in the visit country. This means rather than budgeting for four-star hotels and high-end restaurants, ODA organizations should connect with partnering organizations to arrange stays in local residences or guesthouses.

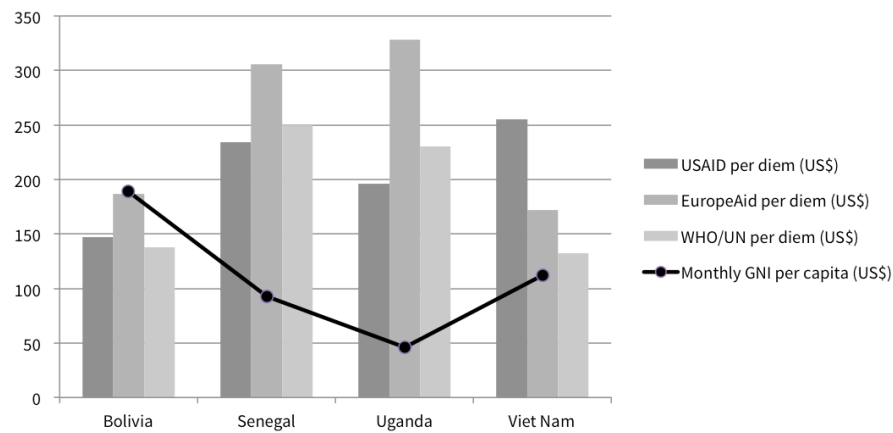


Figure 2.1: Official per diem rates of USAID, EuropeAid and World Health Organization (WHO) compared to Gross National Income per capita.²

Since the 1970s development aid projects have increasingly aimed at local participation, considering grassroots development to be the route to poverty reduction (Escobar, 1991). For example, participatory ‘farmer field schools’ have been found more effective and sustainable in circulating farming techniques than traditional methods of agriculture extension (Van Den Berg and Jiggins, 2007). Numerous studies have criticized top-down approaches to development for both ethical and pragmatic reasons, where partnership building with beneficiaries has been linked to the increased sustainability of interventions (Unwin, 2009, for example). Instead of imparting knowledge and practices from the ‘developed’ to the ‘developing’ world, the idea of participatory development is that practitioners and community members work together to create solutions which are locally relevant.

Participatory development talk is widely adopted by ODA organizations: for example, the United States development agency USAID considers partnerships and collaboration at the core of its mission³ and the UNDP emphasizes local empowerment⁴. However, there has been significant difficulty putting such grassroots ideals into practice. Many participatory approaches have failed to attain a decentralized model and to take local knowledge and values seriously (Hall and Nahdy, 1999; Cooke and Kothari, 2001; Guijt and Kaul, 1998, for example). Local empowerment in development aid projects requires a shift in power relations between development workers and community members such that community knowledge plays a central role in planning processes. Social class differences have long been found to create unequal power relations in a variety of settings (McNamara Horvat et al., 2003; Shucksmith, 2012, for example), and within development aid practice, partnerships with local NGOs have long been an important strategy for ODA organizations to effectively implement projects (Lewis, 1998, for example). These local NGOs have close contact

²Source: Own elaboration based on data extracted from the US Department of State, European Commission, WHO and United Nations Statistics Division. Other currencies are converted into USD at current rates. Where per diem allowances are provided for multiple locations in one country, the average of these locations is presented.

³See <http://j.mp/1F3ADCu>.

⁴See <http://j.mp/1E6dRs1>.

with target communities; their employees have a similar lifestyle, carrying out activities or attending events alongside community members.⁵ This will create a collaborative context between local practitioners and community members, building trust and enabling project 'recipients' to play a more active role. However, ODA workers are more project-oriented in their interactions with community members and are removed from the daily life of communities. While partnerships with local NGOs may be an important step towards a more authentic form of participatory development, representatives of ODA organizations may fail to connect with community members due to the structure of their visits.

In summary, to enhance local participation and to increase the sustainability of ODA funded projects, I argue we need to break down the status barriers between 'donors' and 'recipients', and more concretely, we need to change the model of ODA workers' visits to the South. ODA organizations should work closely with partnering agencies located in the target region to arrange homestays or local guesthouses for their representatives. First, this increases the flow of ODA to target communities, supporting local economic development by channeling per diem expenditures to households and local businesses rather than foreign-owned chain hotels and restaurants. Secondly, this will create stronger connections between ODA workers, local practitioners and community members as ODA workers will be more integrated into community life. Community integration, I have argued, is pivotal to breakdown status barriers and shift the power relations between donors and recipients such that the ideals of participatory and grassroots development can be put into practice.

⁵This observation is based on personal experience from student internships in small-scale non-profit organizations in Bolivia, Argentina, and Uganda.

Chapter 3

Official Development Assistance: Overcoming Current Bottlenecks

Kudakwashe Dube

3.1 Background

Several developed countries pledged to give Official Development Assistance of 0.7% of their GNI to developing countries. Since then, ODA commitments from OECD members has increased from annual average of 70.5 billion USD between 1980-1984 to 108.7 billion USD between 2002-2006 (Van de Maele et al., 2013).

These foreign aid efforts have been very instrumental in addressing health challenges faced by developing countries worldwide. In 2013, 873,000 women received treatment for prevention of mother-to-child transmission and there were more than 50% reductions in rates of new infections among adolescents and adults between 2001 and 2012 in more than 26 countries (UNAIDS, 2013). Furthermore, foreign aid has contributed to democratization of governments through several ways such as strengthening the judiciary, promotion of civil society organizations, improving education and increasing income per capita. For example, the United Nations peacekeepers sent to Mozambique in 1992 contributed to recovery from fierce civil war and subsequent economic growth (Knack, 2004; Kristof, 2006).

3.2 Bottlenecks to Delivering ODA

There have been bottlenecks to delivering aid. This has led to several criticisms on the appropriateness of ODA as a means to help poor countries. Millennium Development Goal (MDG) 6: Combating HIV/AIDS has received substantial ODA, neglecting other key health priorities. Funding for HIV/AIDS constituted more than a third of

all ODA between the 2002-2006 periods. For instance, in Uganda where HIV reached epidemic proportions, more funds were channeled to HIV/AIDS. This pattern of investment neglects other key areas such as human resources for health, reproductive health and family planning (Van de Maele et al., 2013; Piva and Dodd, 2009). Increased flow of aid for health also resulted in governments reallocating domestic resources away from health. This puts the sustainability of the health-sector projects within recipient countries at risk (Hsu et al., 2012). For example, in Kenya and Zambia, increased influx of donor spending on HIV/AIDS resulted in re-direction of government spending away from HIV/AIDS (Piva and Dodd, 2009). Some critics also argue that increased ODA for health has not translated to improved institutional service delivery and health. For example, in Uganda, HIV prevalence remained stagnant for six years while institutional delivery remained below 30% for about four years, despite increased flow of aid (Piva and Dodd, 2009).

On the other hand, there have been numerous recipient government complaints about delays of commitment disbursements. Delay in disbursing commitments results in aid being unreliable and distorts the country's program planning and implementation (Hsu et al., 2012) and eventually reduces effectiveness of aid (Piva and Dodd, 2009). In Ethiopia, ODA for maternal newborn and child health activities has been very volatile; it increased by 143.7% in 2005-06, decreased by 2.9% in 2006-7 and decreased by 15% in 2007-8 (Nabyonga Orem et al., 2009). The fragmentation of ODA at the country level results in lack of coordination among implementing partners and divergence from local policies (Van de Maele et al., 2013).

Lastly, a huge outcry from recipient countries is that funding decisions are being determined at global and regional level instead of at recipient country levels where country priority-based decisions can be made (Van de Maele et al., 2013). Donor countries argue that bureaucratic red tape in recipient countries' public health systems coupled with weak leadership, lack of transparency, corruption and long term conflicts often results in poor administrative and logistical management and compromises aid absorptive capacity (Patel et al., 2009). Therefore, donors try to bypass the government (Piva and Dodd, 2009).

3.3 How to Improve ODA Delivery

For ODA to be effective, key priorities should include a need to ensure sustainability of all aid-related projects for continuity in the absence of donors. This can be achieved through improving local ownership and alignment of projects with recipient government priorities. Local ownership can be achieved through use of general budget support, instead of funding multiple fragmented small activities. Investing in large-scale activities aligned to country priorities and sector-wide approaches will likely result in improved coordination, increased impact and stronger partnerships. Secondly, there is a need to focus more on quality rather than quantity of aid. This can be achieved through a number of ways including use of effective aid instruments, such as use of performance management scorecards and internationally recognized standards for delivering aid. The quality of ODA can also be improved by channeling more funds to strengthen recipient countries health systems and by increasing focus on improving recipient countries development indexes. Lastly, the principles of the Paris Declaration for Aid Effectiveness should be incorporated in the

Post 2015 Development Agenda. Under the Paris Declaration on Aid Effectiveness, all donor countries agreed to pull aid together and use common procedures of delivering aid. Such an approach will avoid overburdening recipient countries in terms of reporting and encourages mutual accountability.

Chapter 4

Combating Corruption: Slaying the Two-headed Hydra

Diep Tran and Harry Berger

4.1 Introduction

Development aid has been in place since the 1960s. In 2013, a total of 134.8 billion USD was spent on aid (OECD, 2014). Despite undeniable results, the impact of this funding has been criticized as disproportionately underwhelming (Dichter, 2003; Hancock, 1989). This has been attributed to institutions' impediment of effective aid distribution. This paper will focus on examining and providing a modeled solution for institutionalized corruption.

Corruption is the focus due to it subverting aid into harm. Often Official Development Assistance is provided as a loan to be repaid. If funding is misappropriated, it leaves the country in debt with no associated development. In turn, this encourages donor countries to give aid to less corrupt countries instead which is likely to realize results and denies the corrupt country future aid.

Institutions are characterized as 'the rules of the game' and exist in two broad categories: formal/legal and informal/social (North, 1990). Corruption exists in both spheres, each with its own insidious venom. They must be examined independently, but a solution must target both.

4.2 Legal Institutions

Principles of democracy, transparency and accountability are rejected by law, as is often observed in dictatorships, oligarchies and one-party democracies. This provides three obstacles: firstly, the corruption can be difficult to identify, as it is concealed behind innocuous legalities. Secondly, the lawmakers with the power to enact institutional change are often the very ones benefiting from the corruption.

Furthermore, if an authority is brought to trial, the lack of transparency and degree of arbitrary power held ensures the resolution will be behind closed doors (Pham, 2014; Nguyen, 2013, for example). Thirdly, international bodies respect and primarily interact with sovereignty holders; thus aid given passes through corrupt hands (Bruun, 2012; Moyo, 2009b). This leads to a lack of transparency regarding aid, so both intentional appropriation and incompetence of allocation goes unchecked by the populace and international community.

4.3 Social Institutions

Often corruption is considered a part of life. As Hancock (1989, p. 40) saliently notes, gatherings of UN delegates are plagued with ‘my car is bigger than yours’ syndrome among other displays of opulence. This illustrates the social aspect of corruption: arbitrary use of power becomes the norm, supported by the innate sense that positions of power entitle the bearers to wealth, luxury and, self-affirming, the position of power itself. This myth of entitlement leads to a lack of will to identify, prosecute or punish abuses of power, be it an ODA representative having fridges flown to him (Hancock, 1989), a Wall Street banker being ‘too large to prosecute’ (Zibel and Kendall, 2013) or a policeman taking a bribe to look away in countries such as Vietnam or Indonesia.

4.4 The Solution

As demonstrated by Vietnam, which has signed and ratified the stringent Convention against Corruption (UNODC, 2014), international pressure and declarations can be deflected with token laws and procedural opacity. Furthermore, the social institutions make it extremely difficult to build adequate support for change within the country. Consequently, the solution must be twofold: both adequate laws must be written and a transparent, independent organization with deferred and supreme legislative authority must enforce them, free from deleterious social institutions.

The merit of such organization is that it is able to investigate and pursue charges of corruption against high-ranking individuals without fear of political ramifications. In exercising this power, it undermines the image of immunity constructed and enforced by institutionalized corruption, making corruption less acceptable across society.

The establishment and empowerment of such an organization faces a multitude of challenges: wresting power from a corrupt sovereign, staffing it with principled individuals, and providing a mechanism for accountability all while conforming to expectations of the international community.

The proposed method is of the carrot-and-stick variety. It deters non-compliance with threats of international sanctions and rewards compliance with increased diplomatic relations, including the amount of aid provided. Under-the-table ‘sweeteners’ may also be necessary to coax corrupt officials into passing legislation against their personal interests.

Staff must have the investigative skills of ombudsmen and the judicial role of a court. They should be esteemed, incorruptible individuals, from within the country and outside locations, to ensure local knowledge is retained. Like many judiciaries, Montesquieu's principle of separation of powers should be observed (Montesquieu, 1748). They will be answerable to and funded by the ODA deliverers.

The organization also can be used to set standards of transparency by example. It is expected to release public reports of its activities and progress. It will also have the authority to investigate opaque infrastructures, bringing transparency to areas that otherwise wouldn't have it.

4.5 Alignment with International Principles

Country sovereignty is given high regard and is potentially undermined in giving authority to another country. This initiative may be labeled paternalistic or even neo-colonial. This is resolved in two ways: firstly, the receiving country must agree to the divesting of authority. According to Diceyan principles, a sovereign is able to legitimately surrender aspects of sovereignty (Dicey, 1885). Secondly, there is an argument that the natural sovereignty of the people supersedes that of the government. This is supported by the Universal Declaration of Human Rights, which states: "the will of the people shall be the basis of the authority of government" (UNGA, 1948, Art. 21 (3)).

The principle of country ownership adopted in the Second High-Level Forum on Aid Effectiveness encourages recipients to initiate and have control over implemented changes to prevent dependency (Bank, 2014). Consequently, the proposed organization should exist in foreign control only long enough to destabilize institutional corruption, at which point the receiving country should obtain full control.

4.6 Feasibility of the Solution

There are two major concerns of implementation. The first is donor countries' cooperation. The second is recipient countries' acceptance.

This proposal assumes most donors aim to alleviate poverty and prioritize giving aid where it will be effective (i.e. in areas with low corruption) and thus are amenable to redirecting ODA to compliant recipients. This will be organized via existing forums such as the OECD Development Assistance Committee. Cooperation is encouraged, though not mandated.

Donors unconcerned with corruption such as non-DAC countries (Brant, 2011; Cabral and Weinstock, 2010; Chun et al., 2010) are unlikely to participate as they deliver ODA for mutual economic benefit, not to change "the structures of recipient countries" (Brant, 2011). This does not defeat the proposal; DAC aid is 1600% greater than non-DAC (Hurley et al., 2011), and no evidence yet suggests both cannot coexist without interference (Brant, 2011; Cabral and Weinstock, 2010).

Recipient hesitancy can be alleviated through a cooperative trial with a willing country. This will help normalize the practice and assuage fears of usurping sovereignty

and country ownership. Ultimately participation should be seen as desirable for a country, yielding increased aid and international credibility.

4.7 Conclusion

Implementation will face many challenges and may ultimately be rejected by either the international community or the receiving country. It is a drastic measure requiring heavy deliberation. However, it is a proportional and appropriate response to an all-pervasive institution. Without something of this magnitude, combating corruption is difficult, if not impossible.

Chapter 5

How to Make ODA Work by Targeting the Roots of Development

Marc Canal Noguer

Official Development Assistance is certainly a controversial issue. Several authors differ significantly in their conclusions about its effectiveness (Burnside and Dollar, 2000; Hansen and Tarp, 2000; Dalgaard and Hansen, 2001; Easterly, 2003; Dalgaard et al., 2004; Rajan and Subramanian, 2008; Clemens et al., 2012). However, there seems to be some sort of consensus around three ideas: (1) ODA causes mild growth on average, with marginally decreasing returns; (2) it cannot be the main driver of development; (3) it has different effects depending on the recipient country – implying it can be very successful in one country while totally counterproductive in another one.

Ultimately, the aim of all development policies should be, as its name clearly indicates, the development of societies. Therefore, in order to assess what ODA can attain and how, we should first ask ourselves: what are the roots of development?

In this sense, there are some complementary theories that are rather robust. Acemoglu and Robinson (2012) argue that political and economic institutions are the key to development. Simply put, countries that have ‘inclusive’ institutions that protect private property, enforce the rule of law, create a business-friendly environment, promote the right incentives for people to progress and allow the necessary process of creative destruction that triggers innovation, do not only develop, but do so in a sustainable way. Contrarily, ‘extractive’ institutions that pursue their own benefit will inexorably lead to underdevelopment.

Ferguson (2011) reaches a similar conclusion, but puts it in a more specific fashion. His theory is that ‘the West’ has developed thanks to six ‘killer apps’: competition, the scientific revolution, property rights, modern medicine, the consumer society and the work ethic – whereby he is not referring to the Protestant work ethic, as propounded by Max Weber, but rather to putting in place the right incentives to make

people want to work. In any event, as Ferguson acknowledges, the ability to ‘download’ these killer apps – which are open-source and thus available to everyone – is strictly related to the institutional quality of a given society.

Haussman (2014) adds an interesting point: technology is crucial. And by technology, he not only refers to the selection of devices, instruments and processes that we Westerners have and are easily replicable. Rather, he focuses instead on know-how, referring to simple ‘learning by doing’, to that kind of knowledge we somehow have in the back of our minds but cannot really translate into words. Hence, the argument follows that technology diffuses slowly due to technology’s own nature. This looks like a meaningful revelation, but it still seems that the best way to disseminate know-how, although it takes time, is by creating inclusive institutions and letting market participants interact in a way that allows them to develop and accumulate their individual and joint capacities.

If we accept these theories as valid, we should conclude that aid effectiveness faces a fundamental problem which is not related to its intrinsic validity. That is, in the absence of inclusive institutions, ODA can do at best little good, and at worst be counterproductive, as it might empower governments to repress their citizens’ rights instead of promoting development. In fact, in a cross-country study, Knack (2001) shows that on average ODA erodes the quality of governance in recipient countries (as measured by bureaucratic quality, corruption and the rule of law).

How can then ODA be more effective? There are at least two ways in which it can be improved.

First, it has been proven that it can attain modest, yet meaningful results when highly targeted and well-evaluated. The fact that this type of aid does not represent a diametrical change in a country’s institutional quality ought not to make us dismiss its importance. For instance, as shown by Sachs (2014), well-designed aid programs have helped reduce malaria deaths of African children under the age of 5 by 51% between 2000 and 2012. It would be foolish to give full credit of this achievement to aid, but it has certainly had an impact. Moreover, aid can assist in the provision of infrastructure by putting roofs on houses, build roads and so forth. However, this type of targeted ODA should respect some important principles. As already mentioned, it should be well-designed and critically evaluated. Likewise, it should avoid despotic, non-democratic governments – regardless of what they use it for – and try to reach citizens in the most direct way possible. Finally, and most importantly, it should not interfere with the natural growth process of these countries by, for example, sending a thousand doctors to a country while unintentionally impeding the development of their own, thus making them endlessly dependent.

Second, ODA should aim at empowering societies and protecting people’s civil rights so that they can claim better institutional quality and prompt organic, internal growth. So far, it has not been particularly good at this, instead undermining them in many cases. Even if autocratic recipient governments use funds for apparently benevolent purposes, this could still be the perfect way of keeping their populations under control, erasing their liberties and eliminating any possibility for their citizens to hold the government accountable. At the end of the day, no government, as repressive as it may be, wants such an impoverished population that is totally unable to generate any kind of wealth. Otherwise, who to extract it from?

Therefore, ODA should aim to end corruption, improve bureaucratic quality and promote the rule of law – for example, by applying performance-based aid programs as the one used by the Millennium Challenge Corporation (Ohler et al., 2012) – whilst letting the poorest citizens in the world know what their rights are through campaigns, workshops, etc. Even more importantly, diplomats, donor governments, academics and all sorts of pressure groups such as NGOs should promote private property as an inalienable right of all citizens, while protecting them from all sorts of abuses and denouncing any frontal attack to their freedom.

ODA by itself will not change the course of history, but it can certainly be useful at lighting the spark that will start this change.

Chapter 6

Chinese Aid into Africa and Development Priorities Post-2015: Working Around the Limitations of Aid Transparency

Sihle Magubane

6.1 Nature and Extent of Chinese Flows into Africa.

Chinese developmental flows into Africa are a highly controversial subject. Some see it as a much needed vehicle towards economic growth and perhaps the only viable one, whilst others believe that it brings more damage than good. This may be due to several variables specific to the Chinese aid model and global perceptions of the Chinese.

Some complications arise out of the fact that more than one Chinese agency handles aid related projects. Further, the Chinese government does not release detailed figures on its aid activities (Strange et al., 2013). Some analysts suspect this is to avoid civil unrest in China as giving out large amounts of aid could be seen as an affront to China's poor and China is still regarded as a developing nation. The Chinese government and investors also offer financing packages which may be in part concessional and in part commercial, making it difficult to classify them by conventional measures (Strange et al., 2013).

This paper argues for the formation of a strategic coalition to overcome some of the listed concerns for effective policy making and engagement.

6.2 Issues of Concern

The ability to measure the costs against the benefits of Chinese aid and investments into Africa is impeded by the lack of transparency of China's activities, in particular those aid related, relative to that of other global players (Strange et al., 2013). Having a clear picture of aid flows into developing countries is of unquestionable importance. Ideally, it informs the construction of effective policy to ensure maximum benefits from any engagement, and to guard against corruption and other misappropriations.

Although China does sponsor some regional projects, it uses a largely bilateral approach to aid in Africa, thus creating a possible neglect of regional priorities. The Chinese aid-investment model has articulated the growth of Chinese multinationals globally as a priority and a potential inhibitor to African entrepreneurship and industrialization (Schiere and Rugamba, 2011).

Notwithstanding all this, Africa still lacks a cohesive strategic position in relation to China (Schiere and Rugamba, 2011). Conflicting national and regional interests also makes this cohesive position all the more difficult to conceive. This creates a situation where the claim to 'mutual benefit' (Information Office of the State Council, 2011) from aid and investment is potentially compromised; not due to any malice on China's part, but the negotiating power Africa loses, as a unit, due to potentially conflicting interests.

6.3 African Development Priorities Post-2015

From consultations across Africa on the post-2015 Agenda, it has been reiterated that African integration into global value chains, industrialization and technology and innovation, and all their enablers are critical to Africa's sustained growth post-2015 (African Union, 2014). The developmental ambitions articulated in these consultations demand that any engagements with aid and investment partners do not delay or endanger the realization of those aims.

6.4 Common Position in Relation to China (CASC)

The CASC would be a coalition of governments, private companies and other African organizations from those African states with diplomatic and economic relations with China. This coalition would collaborate with the Forum for China-Africa Cooperation (FOCAC), other African multilaterals and private partnerships to ensure the facilitation of the following goals:

- African Integration into global value chains and intra-African trade;
- Industrialization; and,
- Technology and skills transfer and innovation.

The CASC's main objective would be to negotiate and present to China, conditions under which Chinese aid and investment activities into Africa would yield maximum benefits for citizens and see the enforcement of these terms. Aid flows would therefore follow the strategic priority areas formulated by the CASC. Some of these might include cross-regional priorities, and micro financing to African entrepreneurs and citizens to name a few. The coalition might also, with some luck, be able to negotiate the release of vital aid information.

There have been several reports that suggest dynamics in China-Africa economic relations have been changing. Some African governments, including South Africa, have been driving harder bargains with China (Han Shin, 2013). Concerns over stalling progress on Chinese projects, poor labor standards, financing of armed groups and environmental pollution have most likely led to this (Han Shin, 2013). The legal dispute between the Gabon government and Addax Petroleum, owned by Sinopec, in 2013, with legal claims of over 1 billion USD against Addax (Farge, 2013), illustrates part of this point.

In addition, the Government of China may be argued to rely heavily on political patronage in its operations on the continent. This implies that continuity is often threatened with regime changes, and that new *guanxi*¹ would have to be built – which can be frustrating for the Chinese. The CASC would also serve to ensure a certain degree of continuity, to the possible benefit of some Chinese entities.

The lack of data on Chinese aid activities in particular, poses a significant challenge. One cannot bank on the possibility of the Chinese government releasing detailed data on its aid activities any time soon. This would require a fundamental shift in the Chinese political economy. Alternative data collection and analytical methods could be deployed by the coalition in its operations.

A combination of data sources and collection methods may address part of this challenge. Data from many disparate secondary sources, such as newspaper reports, non-governmental organizations (NGOs), academic research and Chinese Ministry press releases, may be used to come up with estimations on flows and types of flows from China. Aid Data's 'Tracking Under-reported Financial Flows' (TUFF) methodology is a replicable example of such an approach (AidData, nd). Host governments may also be encouraged to release data on Chinese aid projects. Tracking citizens' general sentiments around particular Chinese projects or Chinese engagement in general, via social media analytics for example, provides an additional source of insights that could be used in negotiating terms of engagement.

Collaborative platforms have demonstrated both their potential for impact and limitations. Drawing lessons from history, incorporating innovative technologies and encouraging cross-sectoral partnerships, these platforms may hold new promise for inclusive development.

¹'Relationship(s)' in Mandarin Chinese

Chapter 7

Intersection ODA: How Investment in Cross-sector Collaboration Helps to Implement Effective Strategies

Larissa Lee Beck & G. Alexander Fanfassian

Looking at a problem from a different angle never hurts. This paper criticizes the top-down approach to foreign aid, as it lacks the involvement of entrepreneurship from local businesses of recipient nations of Official Development Assistance, is rather project-based and scientific and has outworn to address the dynamics of social issues. Instead, more innovative approaches are needed.

Therefore, the authors present a suggestion for improvement of ODA through involving a more diverse set of people through different approaches. Several ideas such as cross-sector collaboration and the Social Lab approaches will be presented. Aid should furthermore not be restricted to come from either bilateral or multilateral public services and NGOs, but should also be given by donors from the private sector within cross-sector partnerships (CSPs). It needs to be emphasized however, that for cross-sector partnerships to work, two conditions need to be met: first, there is no universal model of CSP that can be applied and second, it needs to be facilitated by a diverse set of people incorporating locals who have a better knowledge of their environment.

7.1 Meeting of the Sectors

Recipient countries of ODA greatly benefit from the effects of foreign aid, but the long-term development goals of eliminating poverty and bringing about prosperity cannot be fought by one single sector. The top-down approach to foreign aid is

a lesser effective form of aid due to the lack of self-starting businesses that could add to a developing country's economic stability. Therefore, cross-sector collaboration, supported by development aid, is key as it is able to facilitate change on the economic, political, environmental and social level whereby taking a grassroots approach (Sappal, 2013).

This paper suggests a renewed ODA strategy that is based on outcomes, taking a grassroots approach. Partnerships between the businesses, NGOs and the governments of donor countries and municipalities of the recipient countries help to take a much wider approach to an issue and, for cross sector collaboration to work, there needs to be a more centralized focus on the socioeconomic status of the recipient countries, a detailed look into the structuralization of their system of government and the geopolitical effects they are influenced by. The idea is to bring leaders and experts – a mix of local and experienced foreign staff from both developed and developing countries – together, as for instance in think tanks. It needs to be emphasized that CSP is seen as a variable form of governance that also consults the public (Forsyth, 2007).

Watson (2013) discusses the importance of cross-sector collaboration in an article he wrote for the Journal of Comparative Asian Development summarizing that smaller NGOs are not an immediate threat to the overall interests of both the government and the businesses and could act as a 'bridging role' between the two. He gives the example of Global Civic Sharing, a small NGO in South Korea, and how they implement pro-economic projects directly associated with the local communities and businesses and puts a large focus on self-proclaimed "exit strategies" (Watson, 2013, p. 29), essentially providing economic self-sufficiency instead of aid dependency. He states that "[t]his would include a focus on improving stake-holding by local businesses so as to avoid the aid trap and to go beyond the Keynesian versus market options" (Watson, 2013, p. 29). Thus, through cross-sector collaboration, the probability for local communities and businesses to start to become economically self-sufficient is raised and the state of aid dependency decreased.

Another interesting approach is taken by Zaid Hassan in his book, *Social Labs Revolution – A new approach to solving our most complex challenges*, where he argues that a centralized planning solution will always be too separated from the condition on the ground. A social lab is a creative space where almost everyone can participate and contribute to the discussion (Docksai, 2014). Hassan (2014) argues that dynamic problems as poverty or ethnic conflict should not be treated as merely technical problems that demand for a treatment of the symptoms – he recognizes the urgency of systemic changes. Furthermore, Social Labs focus on being social, not only relying on technocrats and experts but drawing its participants from a variety of backgrounds across the sectors. The last characteristic is that they test and experiment, just as scientific labs do. They develop prototypes of solutions, test them and then redefine and adjust them according to collected data. Social labs go beyond project-based approaches but find themselves in constant adjustment (Hassan, 2014). ODA could be used to help foster such Social Labs and invest in those plans that have proven to work out.

The concept of "strategic philanthropy" (Utting and Zammit, 2009, p. 43), stressing that corporations involved in ODA or corporate responsibility projects in development aid, can improve the business environment and also help to develop new markets. A further advantage of drawing onto the private sector is that not only pri-

vate businesses financial resources can be used but also their skills, knowledge and core competencies (Utting and Zammit, 2009).

ODA could be used to set up local social labs helping to build sustainable infrastructure, as this is a necessary prerequisite for any economy to grow (Watson, 2013). In the same breath, governments and policy makers could direct and consult on how the infrastructure should be set up. NGOs would play their role and take an approach based on educating social entrepreneurs and consulting on business plans. However, it should not be a one-way approach, the global north teaching the Global South. Rather this cross-sector collaboration is designed to take into account the ideas of the local community, as only they know what is best for them.

It has been argued that especially the involvement of private companies in the area of water, sanitation and energy through commercialization has not been helpful to reduce poverty (Utting and Zammit, 2009). Leveraging is also highly complicated as it has happened that companies decide to disinvest in some countries and then create an institutional vacuum that cannot be filled (Schneider, 2014). Therefore, it is important that cross-sector partnerships are not tailored towards the business interests of companies. Since ODA is given by the public sector, the government of the donor country should express leadership and draw on the resources of both NGOs and private companies. Since the economic well-being and development of the recipient countries is the main focus of ODA, assistance in the form of hands-on approaches and know-how transfer are inevitable.

The approach we would take integrates both the idea of Social Labs, cross-sector collaboration and grassroots. It is supposed to draw on the knowledge of locals and a set of diverse actors from across the sectors – private, public and nonprofit.

7.2 Conclusion

To conclude, this paper is aimed at applying the most recent ideas on social innovation and change to the problem of ODA. Cross-sector collaboration and collaborative social impact has become more important in the developed world, so why not use the same idea and implement it in developing countries? The most important points are that only the local communities know what is best for them and that each of the three main actors – NGOs, the private sector and the government – can draw on each other's consultancy to prosper in their own area and can collectively come up with solutions for what ODA should be targeted towards.

Chapter 8

Who Helps Whom? Development Assistance in Decentralized Contexts

Thiago Garcia

The 2007/2008 crisis cast serious doubt for developed countries, should they focus on domestic investment or maintain levels of foreign aid? When low levels of economic growth and employment begin to bother politicians, it is understandably difficult to justify an enlightened self-interest rationality of international development assistance to an audience much more concerned with immediate ‘close-to-home’ issues. To aid or not to aid became a discussion, which was partially pacified by the application of the concepts of efficiency and effectiveness of the public expenditure in foreign aid. Bourguignon and Sundberg (2007) contributed to the discussion, to some degree, by expanding the domestic policy cycle to include processes previously identified as extraterritorial, i.e. the causality chain of the policy outcome. This policy cycle extension includes mechanisms of evaluation and accountability in order to evaluate the three interactions in the process: *“from donors to policymakers”*; *“from policy makers to policy formulation and implementation”* (Bourguignon and Sundberg, 2007, p. 6).

The objective of this paper is to advance from a ‘managerialist’ view of aid, and its pursuit of rationally justified cost-effective action by the insertion of business technologies, into a more flexible environment where the interplay of actors generate mutual benefits for assistants and assisted. This proposition attempts to adapt the ODA reality to a more complex international and domestic political environment responding to the modern fluidity of relations and the local heterogeneity in terms of demand for development. Regional development policies deserve special attention due to the fact that they carry an inner tension by relying on the need to consider the local diversity in opposition to the need of coherence of different regional strategies aggregated at the national level (Charbit, 2011). I argue in favor of a transnational aid structure that breaks itself down from a hard interstate relationship into a more

flexible multilevel aid structure involving private actors from both sides, as well as subnational governs and other actors, placing subnational governments at the center of the development discussion.

Why should subnational governments receive aid? The literature on aid considers it important to the effectiveness of the assistance on the ownership of the development strategy by the assisted country, but it is difficult to imagine one general strategy that includes spatial, cultural and economic heterogeneity of a territory. The 'decentralization theorem', proposed by Oates in 1972 (Oates, 1999, 2005) inside the economic federalism field of study, postulates that the level of decentralization of a policy provision should be determined by the balancing of the intensity of local preferences against scale gains and externalities of the policy. In the case of policies for development, or poverty reduction, the simple recognition of regional and contextual dependency of those concepts already indicates a greater need for decentralization. In addition to that, many countries have established a federal structure that allows subnational units to participate in such activities, sometimes conditioned to the consent of the central government. By extrapolating this interpretation, it is even possible that developed countries receive direct aid with the objective to interfere in less developed subnational units, holding some resemblance to the EU's cohesion fund. One area that subnational governments can respond well in terms of development outcomes is governance. Since the development movements of the 1960s, governance is broadly accepted as the most important development variable in control of the States. But, in a decentralized government landscape, the governance of investment and its efficiency depends on local capacities (OECD, 2013). The development of those capacities become central to the effectiveness of any aid oriented to development.

In what world would this happen? Such flexibility of arrangements would demand strong reliance on coordination and accountability instruments. On the vertical dimension of the assistance involvement, actors should work on questions such as the level of information and accountability and objective convergence of the assistance. In order to meet those challenges, new instruments, e.g. informational platforms and crowd funding instruments, should improve the convergence of the involved actors towards negotiated objectives. On the horizontal dimension, the cooperation instruments should be able to capture and maximize benefits of the assistance. This aspect becomes crucial in a landscape of subnational interventions, if among the negotiated objectives there are catalytic effects in different scales. The national government plays an important role in this dimension by creating legal frameworks that allow and promote subnational horizontal cooperation, including private actors. It is important not to forget that markets can be efficient instruments for coordination in both dimensions.

The shared responsibility for development is clearly demonstrated in international law (UNGA Res. 1803/1962, 3201/1974, 3281/1974), and it has this interesting aspect of been a right and a duty at the same time. Nevertheless, the operationalization of such a shared responsibility requires institutional arrangements that disperse authority among countries and actors and, to some extent, overcome some of the intergovernmental and territorial aspects of the international relations. These propositions may appear as Utopic social science fiction, but initiatives like the Maastricht Principles on Extraterritorial Obligations of States in the Area of Economic, Social

and Cultural Rights¹ indicate that international development requires an extraterritorial approach.

Finally, with the growing importance of South-South relations and investments, the necessary direction of the aid vector from developed countries to developing countries should be questioned. However, it is undeniable that classic developed countries have the international institutional capability to lead in this multi-level approach to development, and more than that, some level of centralization will be necessary to prevent the system from the exponentially increasing cost of coordination (transaction costs) among the increasing number of institutions, private actors, governments of different levels, among others actors.

¹Available at: <http://j.mp/1AWw1Yn>.

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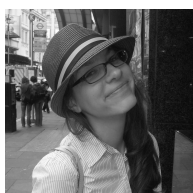
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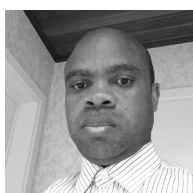
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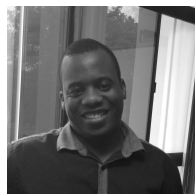
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