

Beyond Paris: 11 innovations in aid effectiveness

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Abstract

The current framework for improving aid effectiveness, the 'Paris' agenda of harmonisation and alignment, has been found lacking. Alternatives are needed. This paper highlights some examples of recent innovations in the management and delivery of development aid. Drawing upon Barder (2009) and Howes (2011), the paper structures 11 innovations into three categories: improving the quality of the aid donor; improving the quality of the aid recipient; and improving how donors interact and the way aid is given. By examining these 11 innovations, the paper shows that aid agencies have the potential to adapt and evolve. The challenge for donors is to start selecting good ideas for implementation now and to never stop searching for new innovations to improve aid effectiveness.

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Morris, M & Pryke, J 2011, 'Beyond Paris: 12 innovations in aid effectiveness' *Development Policy Centre Discussion Paper #10*, Crawford School of Public Policy, The Australian National University, Canberra.

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1. Introduction

This paper provides some examples of new innovations in the management and delivery of development aid. It is not a comprehensive survey of recent aid reforms. The aim is to promote discussion, encourage feedback on lessons of recent innovations and help identify future reforms.

The starting position for this analysis is that aid will continue to represent a large, and probably growing, commitment of rich governments. Australia, for example, plans to double its aid program from \$4.3 billion in 2010–11 to about \$8.6 billion in 2015–16 (0.5% of GNI), and other donors have scaled up or are planning to. Yet this scaling up is taking place at a time when public finances in many rich countries, including Australia, are under pressure and there is growing scrutiny of development aid budgets. It is therefore appropriate to ask what can be done to make aid expenditure more effective and to assess practical innovations for achieving this.

The next section of this paper provides a conceptual framework for thinking about the determinants of aid effectiveness, drawing on the work of Barder (2009) and a recent Development Policy Centre discussion paper (Howes 2011). It also briefly explores the traditional so-called ‘Paris’ reform agenda based around harmonisation and alignment, and the limits of this agenda.

This leads into the next three sections of the paper: a discussion of 11 recent innovations in development aid. This discussion is set in three parts, drawing on the three categories introduced by Howes (2011) and discussed in the second section.

- Section 3 considers innovations to improve the quality of aid recipients: new forms of ex-ante selectivity and results-based aid.
- Section 4 discusses four innovations to the way in which donors and recipients interact: cash transfers, working with new partners, virtual networks for collaboration, and market-based reforms for technical assistance.

- Section 5 discusses five innovations to improve the quality of aid donors: selectivity, aid transparency, independent evaluation, crowdsourcing aid information and feedback, and reducing volatility.

The breadth and size of these innovations, which are taking place in most major donor agencies, is indicative of the growing pressure to improve the overall effectiveness of aid expenditure. The innovations also reflect the capability of aid agencies to adapt and change. There is clearly a wide variety of approaches and ideas as to how to improve aid effectiveness. As we conclude in Section 6, the key for donors is to start selecting good ideas for implementation now, and to never stop searching for new innovations to improve aid effectiveness.

2. Aid effectiveness: Good ideas, slow implementation

2.1. Determinants of aid effectiveness

A lot is known about how to improve the effectiveness of aid. Howes (2011) provides a useful conceptual framework for considering the determinants of aid effectiveness which draws on a wide literature, grouping the factors that determine aid effectiveness into three different categories. These categories consider reforms to improve the performance of *recipients* and *donors*, as well as the *interactions* between the two. The table below provides a summary of these determinants, their roots in the research literature, and some policy responses (Howes, 2011).

Table 1. Aid determinants and policy responses

Determinants of aid effectiveness	Policy response
1. The quality of the government of the recipient country	
<p>The World Bank <i>Assessing Aid</i> report (1998) claimed to show that aid was more effective in countries that had sounder policies. The econometrics behind this claim has since been debunked (Easterly, Levine, Roodman, 2003), but the finding itself appears sound (Dollar and Burnside, 2004).</p> <p>It is widely accepted that domestic institutions are the primary determinant of domestic economic performance (Rodrik, 2003). If this is the case, then one would indeed expect the productivity of aid in a particular country to be a function of the institutions of that country.</p>	<p>Use more ex-ante selectivity</p> <p>Use more results-based aid</p> <p>Demonstration projects</p> <p>Technical assistance</p> <p>Conditionality</p> <p>Strengthen NGOs</p>
2. The quality of the aid donor	
<p>Some analysts argue that the performance of aid is undermined because aid donors are not subject to the usual accountability and feedback mechanisms that govern public sector operations in developed countries (Easterly, 2006; Svensson, 2008).</p> <p>The large levels of discretion around aid activities can undermine performance, and aid donors may also lack the local and technical knowledge required to be effective operators.</p>	<p>Make donors more accountable</p> <p>More independent evaluation</p> <p>Reduce the knowledge burden</p> <p>Operational independence</p> <p>Reduce aid volatility</p>
3. The way in which donors and recipients interact	
<p>Donors themselves now recognise that the presence of a large number of aid agencies acting in an uncoordinated manner and independently of government increases the transaction costs for recipient governments. Such donor behaviour can also undermine the legitimacy and performance of the governments donors are trying to assist.</p>	<p>Harmonise and align donor activity</p> <p>Work more with NGOs and private sector</p>

Source: Adapted from Howes (2011).

Howes stresses the need for a multi-pronged approach:

“Each of these diagnoses [that the problem with aid is the recipient, the donor, or the relationship between a recipient and its multiple donors] captures some of the truth about aid effectiveness, though analysts differ on their importance. In the view of most economists and aid practitioners, the first is the most important. An effective recipient government is able to direct the aid process, and so to compensate for weaknesses of donor agencies, and to ensure that donor-government interactions are reasonably well-organised. This implies that aid

agencies should direct more aid to more effective governments, and try to improve the standards of governance in their aid recipients. However, both these strategies can only be pushed so far. Often the risks associated with aid withdrawal are particularly high in relation to the worst-performing governments. And the capacity of aid programs to improve governance standards is often severely limited. Given this limited scope for navigation in this domain, aid donors which want to improve aid effectiveness will also need to focus on the second and third determinants: improving their own performance, and strengthening donor coordination.” (Howes 2011, p. 7)

2.2. The official donor reform agenda

The Paris Declaration and Accra Agenda for Action are the primary references used in defining the international consensus on reforms to improve aid effectiveness.

The 2005 Paris Declaration agenda for reform is organised around five key principles:

- Ownership: Recipient countries exercise leadership and ownership of their development policies and direction
- Alignment: Donors base their overall support on the national development strategies, institutions and procedures of partner countries
- Harmonisation: Donor actions become more coordinated, integrated and transparent
- Managing for results: Resources and decision making are now oriented around results
- Mutual accountability: Donors and partners are both mutually accountable for development results

The most striking component of the 2005 Paris Declaration was the addition of indicators to measure international progress of signatories towards goals set for 2010. The 2008 Accra Agenda for Action reaffirmed the objectives set by the Paris Declaration, and also stressed the importance of aid transparency and civil society engagement in donor institutions.

At the core of this agenda are harmonisation and alignment.

2.2.1. Harmonisation

Simply put, harmonisation is an attempt to facilitate greater coordination and integration of activities between donors. Harmonisation attempts to significantly reduce transaction costs by calling on donors to implement common planning, funding, disbursement, monitoring and evaluation, and reporting procedures; promote joint missions, analytic work, and training with other donors; and fully delegate the execution of aid activities and programs with other donors.

The Paris Declaration set out two monitorable indicators and set standards for progress by 2010 with regards to harmonisation. The first indicator is the percentage of aid provided as program-based support. The second indicator is the percentage of joint field missions and country analytic work, including diagnostic reviews. A follow-up 2008 survey by the OECD shows limited progress.

Figure 1: 2007 Progress to Harmonisation targets (33 Country Survey)

9	Donors use co-ordinated mechanisms for aid delivery	43%	47%				66%
10a	Donors co-ordinate their missions	18%	21%				40%
10b	Donors co-ordinate their country studies	42%	44%				66%

Source: OECD DAC 2008

Clearly, although there has been some effort towards harmonising donor activities, the pace of change will be insufficient to meet the 2010 targets.

2.2.2. Alignment

Alignment is essentially the process of donors lining up behind recipient governments by channeling aid through government national procurement and distribution systems. Alignment requires that donors commit to using national systems while at the same time recipients commit to strengthening those systems. The theory is that this will allow for both a reduction in transaction costs and an increase in ownership of aid flows by recipient governments. In the long term it is expected that alignment, by channeling more funds through national systems, will strengthen the institutional capacity of those systems. Alignment is arguably required because by working around government

systems, foreign aid reduces the internal pressure for reform and good governance practices within recipient countries (Rogerson 2005).

By putting more funds through already weak government systems in poor countries, it can also be argued that alignment runs the risk of facilitating further corruption and delaying development results (Svensson 2008). The Paris Declaration attempts to curb this risk by requiring alignment only when recipient financial systems are rated satisfactory (OECD 2005), ruling out the majority of Least Developed Economies in the world. However, working with government systems may also enable donors to put more pressure on governments (Howes 2011).

The Paris Declaration sets out eight monitorable indicators for improvement in various dimensions of alignment to be achieved between 2005 and 2010. While many of the indicators have obvious impacts on alignment, such as donors’ use of country public finance management and procurement systems, others are unclear. The OECD (2008) states that untied aid improves recipient country ownership of aid and thus the program’s alignment, while making aid more predictable enforces alignment by making aid more reliable as a key component of a country’s budget. These indicators, and the progress made in each as at 2007, can be seen in figure 2 below.

Figure 2: 2007 Progress towards Alignment indicators (33 Country Survey)

2	Reliable public financial management (PFM) systems	—	36%	50% of countries improve score
3	Aid flows are recorded in country budgets	42%	48%	85%
4	Technical assistance is aligned and co-ordinated	48%	60%	50%
5a	Donors use country PFM systems	40%	45%	(80%)
5b	Donors use country procurement systems	39%	43%	(80%)
6	Donors avoid parallel PIUs	1 817	1 601	611
7	Aid is more predictable	41%	46%	71%
8	Aid is untied	75%	88%	Progress over time

Source: OECD DAC 2008

Unlike harmonisation, there is good progress in a couple of areas. However, the overall progress indicated by 2007 suggests that the majority of the desired objectives will not be reached by 2010.

2.2.3. Progress as at 2010

The 2010 Paris Declaration evaluation (OECD DAC 2011) shows similar results, as Figure 3 shows. All but one of the 11 indicators used to measure progress on harmonisation and alignment have not been met by the 2010 deadline. Overall, the evaluation finds that “much further effort on more active harmonization is required” (p.19) and that there is “limited if any overall increase by most donors in the use of country systems and processes” (p.24).

Figure 3: Paris Declaration Indicators and targets 2010

Paris Declaration Indicator	2010 Actual	2010 Target ^d	Status
1 Operational Development Strategies % of countries having a national development strategy rated “A” or “B” on a five-point scale ^a	37% (of 76)	75%	Not met
2a Reliable public financial management (PFM) systems % of countries moving up at least one measure on the PFM/CPIA scale since 2005 ^a	38% (of 52)	50%	Not met
2b Reliable procurement systems % of countries moving up at least one measure on the four-point scale since 2005	--	No Target ^c	--
3 Aid flows are aligned on national priorities % of aid for the government sector reported on the government’s budget ^a	41%	85%	Not met
4 Strengthen capacity by co-ordinated support % of technical co-operation implemented through co-ordinated programmes consistent with national development strategies ^a	57%	50%	Met
5a Use of country PFM systems % of aid for the government sector using partner countries’ PFM systems ^b	48%	55%	Not met
5b Use of country procurement systems % of aid for the government sector using partner countries’ procurement systems	44%	No Target ^c	--
6 Strengthen capacity by avoiding parallel PIUs Total number of parallel project implementation units (PIUs) ^b	1 158	565	Not met
7 Aid is more predictable % of aid for the government sector disbursed within the fiscal year for which it was scheduled and recorded in government accounting systems ^b	43%	71%	Not met
8 Aid is untied % of aid that is fully untied ^a	86%	More than 89%	Not met
9 Use of common arrangements or procedures % of aid provided in the context of programme-based approaches ^a	45%	66%	Not met
10a Joint missions % of donor missions to the field undertaken jointly ^a	19%	40%	Not met
10b Joint country analytic work % of country analytic work undertaken jointly ^a	43%	66%	Not met

Source: OECD DAC 2011

2.3. Why is implementation slow?

If donors agree on key reforms then why are they not being implemented? For example, it should be possible to reduce the number of aid projects; make aid more predictable; untie aid; and harmonise projects, yet progress is slow.

There have been many critiques to explain why the Paris Declaration reforms are failing to meet their targets. One argument is that donors are unwilling to promote further recipient ownership because they will lose authority over the distribution of taxpayer funds (Martens, 2005). Another is the paradox that, if harmonisation and alignment worked perfectly, aid agencies would be working towards their own demise (Rogerson, 2005), or at least helping to shrink the industry. It can also be argued that there are no real penalties for non-compliance and there are strong domestic pressures driving aid outside of the objective of poverty reduction (Rogerson, 2005). It is also possible that the 'one-size-fits-all' approach of the Paris Declaration works for some aid recipients but not others: namely, fragile states.

Barder (2009) argues that despite donor declarations, we are locked in a deep political equilibrium that leads to sub-optimal aid. Beyond the determinants of aid effectiveness, we also need to consider the determinants of the 'political equilibrium' for aid policy:

“The aid system is in a political equilibrium, determined by deep characteristics of the aid relationship and the political economy of aid institutions. Reformers should seek to change that equilibrium rather than try to move away from it. The priority should be on reforms that put pressure on the aid system to evolve in the right direction rather than on grand designs.” (Barder, 2009, p. 1)

Barder's paper sets out a framework for thinking about the relationship between effectiveness and the political economy of aid. It discusses how the implementation of aid is complicated by donors' multiple objectives, imperfect information and broken feedback loops, principal agent problems within aid agencies, and collective action problems among aid agencies. Each of these contributes to a range of aid problems: an undermining of accountability; poverty reduction being compromised by pursuit of other interests; proliferation and high transaction costs; short-termism and lack of predictability; and a lack of focus on results (Barder 2009).

Barder's paper shows the importance of focusing not only the determinants of aid effectiveness but on reforms which shift the political economy of aid. Neglect of this is no doubt one reason for the relative failure of the Paris reforms.

Clearly giving aid isn't easy. Despite consensus on many of the reforms that should lead to better aid, as identified in the aid literature and reflected in the Paris Declaration, progress in implementing them has been slow. Yet, at the same time, as we show in this paper, aid delivery has continued to adapt and evolve.

2.4. Summing up

While the Paris reforms are probably a step in the right direction for improving aid effectiveness, they are no magic bullet. To substantially improve aid effectiveness, work is needed on all of the three fronts that are highlighted in the framework outlined by Howes (2011). This paper does not incorporate all recent innovations in aid effectiveness, and in particular omits those associated with the Paris Declaration, such as Sector Wide Approaches (SWAPs). It instead introduces 11 'post-Paris' innovations that the authors believe will best take the aid effectiveness agenda forward, by tackling both the determinants of aid effectiveness as set out in Howes (2011) and the political economy of aid as discussed in Barder (2009).

3. Innovations to improve the quality of aid recipients

This section provides some examples of aid innovations that aim to improve the quality of aid recipients. We suggest that disappointing results in using aid to improve the aid recipient institutions – through technical assistance and conditionality (Howes 2011) – have shifted attention towards two interesting innovations that create competition for aid: ex-ante selectivity and more results-based aid.

3.1. A new approach to ex-ante selectivity

Linking aid more closely to performance is an attractive idea for both donors and recipients, and one that has been around for a long time. From a donor perspective it helps to allocate aid resources more efficiently by scaling up programs with good results and scaling back in areas where aid is less effective. From the recipient government's perspective it is a way to access more aid resources free from conditionality and foreign

interference in domestic affairs. It may also help to improve the accountability of developing country governments to their own citizens by providing incentives to improve the quality of service delivery. Taxpayers will see the benefit in their aid contributions being effectively spent.

The World Bank's 'Performance Based Allocation System' (PBAS) is probably the best known example of factoring performance into aid allocations (World Bank 2010d). The PBAS has formed the basis of allocating resources within IDA, the World Bank's Primary fund for poverty reduction, since the late 1970s and it was used to distribute 84% of IDA's resources in its last replenishment round (World Bank 2010a). The main factor determining a country's place in this system is the Country Policy and Institutional Assessment (CPIA), which is a measure of performance in implementing policies that are thought to promote economic growth and poverty reduction (World Bank 2010d). During the last round of IDA funding, the recipient countries in the top performance quintile received about 2.7 times the allocations per capita of those in the lowest quintile (World Bank 2010d). This approach has, however, been deemed too inflexible for bilateral partners, which has in the past limited the use of ex-ante selectivity to improving overall aid effectiveness.

An approach to ex-ante selectivity' that may be much more suitable for bilateral donors than the PBAS is DFID's internal resource bidding on the basis of expected development outcomes. In November 2010, DFID announced a bottom-up bilateral aid review of its work through country and regional programs¹. As part of this review, all DFID country and regional teams were asked to develop 'results offers', setting out the outcomes they expected to deliver over the next five years in a number of priority areas. This means that DFID can now weigh actual results against expected results on an incremental and structured basis, an innovation which allows for redistribution of aid to where performance and expected results are highest. This will increase the overall effective allocation of aid resources and these 'results offers', rated against estimated country need, now form the basis of continued distribution of bilateral aid resources (DFID 2011).

¹ Press Release: <http://www.dfid.gov.uk/Media-Room/News-Stories/2010/Aid-budget-to-be-refocused-to-deliver-better-results/>

Through its performance rating systems that focus on economic policy as opposed to aid program performance, the World Bank approach takes funds away from fragile states (even where a well-designed aid program can have a significant impact). The DFID approach avoids, or at least limits, this by-product of ex-ante selectivity. Of course, projecting and then measuring the results of an aid program is not without complication, but the DFID innovation is certainly worth watching.

3.2. New forms of results-based aid

In recent years there has been a growing focus in certain sectors and aid agencies on *ex-post* verification and ‘rewarding’ reform and development outcomes (De Renzio & Woods 2010). Most progress made in this area has been achieved by focusing more specifically and exclusively on clear indicators of development success, which can most easily be found in areas of aid support to service delivery.

One such fund that is directly linking aid to results is the Global Partnership on Output-Based Aid (GPOBA), a World Bank initiative focussed on payments of aid to the delivery of specific services or ‘outputs’. Under this scheme, service delivery is contracted out to a third party, usually a private firm, which receives a performance-based subsidy to complement or replace the user fee for the service. The idea is to shift performance risk to the provider by making them accountable. The World Bank claims this will act as an incentive to mobilise private sector engagement and ensure stronger tracking of results (World Bank 2009). The aim of the Global Partnership is to mainstream Output-Based Aid (OBA) into regular project design. So far, the initiative has identified around 131 OBA projects with a total value of around \$3.5 billion in the World Bank aid infrastructure (World Bank 2010c). The GPOBA also has funding from donors totalling \$242.6 million to be distributed to programs based on independently verified outputs.

Another proposal for linking aid to results is Cash on Delivery (COD) aid, championed by the Centre for Global Development. While many of its attributes link it closely to ex-post outcome-based budget support, which has been tried in the past, its proponents argue that it will fundamentally change the delivery mechanisms of aid by paying only for verified incremental results (Birdsall et al. 2010). According to Birdsall et al. this approach holds ‘the promise of making aid more effective and less burdensome by fundamentally restructuring the

relationships of accountability among funders, recipients and their respective constituencies' (Birdsall et al. 2010, p.1.). DFID promised in the Conservative Party Green Paper (Conservatives 2009) and in their November 2010 Business Plan (DFID 2010a), has committed to piloting results-based aid and COD contracts.

Box 1. DFID's Pilot Programme on Results-Based Aid and COD Aid

DFID supports various approaches to providing output-based aid, including most of the multilateral instruments mentioned here. It categorises them as Results-Based Aid (RBA), an aid relationship between donors and partner governments, or Results-Based Funding (RBF), an approach to contracting service providers beyond central government, or incentivising beneficiaries to use services.

DFID is committed under its Structural Reform Plan to 'pilot Results-Based Aid and Cash on Delivery contracts in three developing countries'. The most advanced cases at different stages of design are:

1. Ethiopia: Using the COD model to increase the school completion rate for girls: for every extra girl completing grade ten, the Government will receive (RBA) USD 150-300 equivalent, varying by region. Payments are passed on to local schools, which control their end-use. The approach is expected to increase completion rates by 10-12% over four years.
2. Uganda: Private non-profit health providers will be paid (RBF) for subsidised or free maternal and child health care in certain regions, at approximately USD 10 equivalent per child under 5, and USD 5 per pregnant woman. A voucher scheme for transport of pregnant women to health facilities is also envisaged to address demand-side issues.
3. India: Private sector providers are to be paid (RBF) on provision of renewable energy technology to poor households. Pricing is to be set by auction to ensure value for money.

Source: Rogerson 2011

In line with results-based aid, another proposal is the development of a 'Health Impact Fund' (HIF) to re-align incentives towards creating a more equitable and efficient global health system (Pogge 2011). The HIF is a pay-for-performance mechanism that would

offer pharmaceutical innovators the option – no obligation – to register any new medicine. By registering a product, a firm would pledge to make it available for ten years, wherever it is needed, at no more than the lowest feasible cost of production and distribution. In exchange, the registrant would receive annual reward payments for the period based on the health impact of its products around the world. Although in the early stages of development, the HIF is just one of many innovative results-based proposals.

4. Innovations on the way in which donors and recipients relate

This section provides some examples of aid innovations that stand outside of the Paris orthodoxy but nevertheless aim to improve the way in which donors and recipients interact, how aid is given and how the overall aid architecture is organised. We consider the increasing use by aid donors of cash transfers, collaboration with new partners, new forms of donor networking, and new ways of contracting technical assistance.

4.1. Cash transfers

Cash transfers are direct, regular and predictable non-contributory cash payments that help poor and vulnerable households to raise money and smooth incomes (Arnold et al. 2011). Cash transfers incorporate a range of instruments including social pensions, child grants and public work programs. They are designed, implemented and financed in a variety of different ways.

The rationale for cash transfers is quite simple. Low and variable income remains a central problem of poverty. It can be helped by the provision of modest but regular income in the form of cash transfers. This enables households to sustain spending on food, healthcare and schooling in low income periods, without the need to sell assets or accrue debt. Over time, cash transfers can help families to build human capital, invest in productive assets and obtain access to better credit (Arnold et al. 2011). Cash transfers can thus both protect living standards and promote wealth creation (Arnold et al. 2011).

Cash transfers have rapidly expanded over the past 15 years. This expansion began with the success of Mexico's conditional cash transfer programs, which provide cash payments to low-income families in exchange for regular school attendance, health clinic

visits, and nutritional support. Since the late 1990s cash transfers have expanded to at least 45 countries implementing cash transfer programs of one type or another. These programs reach a total of more than 110 million families (Moss 2011). They have now moved into the mainstream of development policy in a number of regions.

Part of the popularity of cash transfers has been the incorporation of rigorous evaluations of the programs into development and implementation. This was largely due to the Latin American countries (Brazil and Mexico) that first introduced large-scale cash transfer schemes in the late 1990s and incorporated rigorous impact evaluations into their design and implementation. This set a precedent that is now gradually increasing throughout other regions adopting cash transfers (Arnold et al. 2011).

The evidence shows that implementing well-designed cash transfer programs can address the major risk and vulnerability factors that keep people in chronic poverty. The effective use of cash transfers can also result in improving a range of development outcomes that can have a direct impact on a variety of MDG targets. Through this broader impact and empowerment, cash transfers may also be a way of promoting civil society and helping poor people to hold their governments accountable. Cash transfers have an important and growing role to play in national and global strategies to reduce poverty and accelerate progress across a range of MDGS (Arnold et al. 2011). Importantly, cash transfers are also considered very economically efficient (Moss 2011).

As the potential for cash transfers as a development mechanism is realised, proposals are being developed for its expanded use in the developing world. One such proposal, presented by Todd Moss of the Centre for Global Development, is to use cash transfers to fight the resource curse. In this proposal, countries seeking to manage new resource wealth are encouraged to consider distributing income directly to citizens as cash transfers (Moss 2011). There are already cases where this takes place, such as in Alaska where dividends from earnings on oil savings have been distributed directly to residents since 1982, with similar programs more recently in Bolivia and Mongolia (Moss 2011).

Moss (2011) argues that, beyond serving as a powerful and proven policy intervention, cash transfers can mitigate the corrosive impact of rapidly rising resource revenues (in this case from oil) on governance. Through a regular, universal and transparent cash transfer payment; Moss (2011) argues that cash transfers can complement EITI and

other revenue ring-fencing mechanisms to make resource revenues more transparent and accountable. This will also have the added benefit of helping to create demands for heightened transparency and accountability of all resource revenues.

The experience of countless countries that have failed to manage surging resource revenues, which have even proven to be economically and politically destabilising (Moss 2011), provides a sound justification for trying a new approach. The growing evidence of the success of cash transfers on specific poverty alleviation objectives, and the growing body of evidence on its positive indirect impact on a variety of other MDG outcomes, suggests that they are a solution worth trying. It may, however, prove harder to suggest to developing governments.

While cash transfers are not themselves new, there is increasing interest from donors in supporting them. DFID plans to support cash transfers in 16 country programs, with an emphasis on building sustainable, nationally owned systems (DFID 2011). DFID is also taking a prominent international role in promoting cash transfers in international forums and through international financial institutions, focusing on specific partnerships with the World Bank, UNICEF and the EC (Anderson et al. 2011). There is also increasing interest in using cash transfers in the context of disaster relief programs.

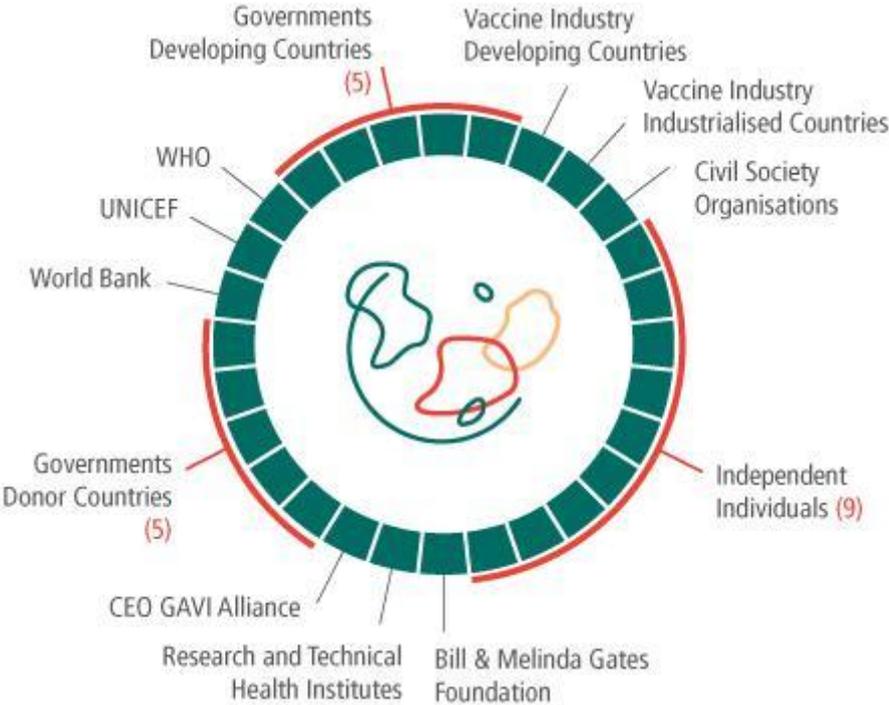
Whether cash transfers go through national governments or are made directly from donors to households, they can be seen as a low-transaction-cost way of getting resources into the hands of the world's poor, and thus perhaps a simpler way of achieving Paris Declaration goals.

4.2. Working with new partners

Working with new partners, most notably in the private sector, can be pursued through public-private partnerships that transform businesses into contractual agents in the implementation of public infrastructure and service delivery. Through these partnerships aid can be leveraged to increase incentives for businesses to act as responsible corporate citizens (De Fontaine Vive et al. 2006).

An example of these public-private partnerships is the teaming up of DFID, the Clinton Foundation and Indian Pharmaceuticals to help reduce the price of selected drugs for HIV/AIDS and malaria.² Another example in the health sector is the Global Alliance on Vaccines and Immunisations (GAVI). Launched in 2000, the GAVI alliance is a global health partnership representing stakeholders in immunisation from both private and public sectors aiming to accelerate access to underused vaccines, strengthen health and immunisation systems, and introduce innovative new immunisation technology (GAVI 2010). Through GAVI, a total of US\$4 billion has been approved for country programs between 2000 and 2015 (GAVI 2010).

Figure 4: Breakdown of GAVI members



Source: GAVI 2010

While the majority of these initiatives have been implemented in the health sector, there is potential for expansion of donor support in collaboration with, or through, the private sector in other areas of service delivery. The GPOBA (discussed in section 3), is a

² See website: <http://webarchive.nationalarchives.gov.uk/+/http://www.dfid.gov.uk/aboutdfid/organisation/accessmedcines08.asp>

primary example of how the private sector is being used to implement service-delivery based aid to increase efficiency and effectiveness.

Another example of where donors are making progress in harnessing a broader involvement in foreign aid initiatives is the World Bank's 'Apps for Development Competition.'³ This competition, with a prize pool of \$45,000, aims to challenge the development community and general public to make tools, applications and mash-ups that can help make development information (now freely accessible from the World Bank) more accessible and easily disseminated.

4.3. Virtual networks for collaboration

The creation of online communities and knowledge-sharing platforms is a further innovation (Barder 2009). Through these knowledge-sharing platforms, donors can draw information from other actors with experience in that region or sector. Donors can also use this knowledge to learn from others mistakes and build upon previous successes. The World Bank's 'Open Data Initiative' is an example of major donors trying to help others make better, more informed decisions to solving development challenges. Another example from the World Bank, in collaboration with AidData and the Development Gateway, is the 'Mapping for Results Initiative', that attempts to geographically map the allocation of aid within a country⁴, helping donors to see what resources are available in their region or sector to facilitate greater coordination and knowledge sharing. The UN has similarly initiated the 'Global Pulse' project that aims to create a free and open source technology platform for collaborative analysis.⁵ All of these systems are still in development, but if even one succeeds the result would be an online international aid community that could revolutionise the aid industry and eliminate the knowledge burden of conventional donors.

³ See Website: <http://appsfordevelopment.challengepost.com/>

⁴ See <http://www.aiddata.org/home/index> for geographical listings from over 70 countries.

⁵ See website: <http://www.unglobalpulse.org/strategy-and-roadmap>

4.4. Market-based reforms for technical assistance

Donors continue to provide a large proportion of aid in the form of experts and training, despite evidence that technical assistance on average is relatively inefficient (Riddell 2007). Technical assistance makes up about 25% of official aid on average and traditional responses to improve the effectiveness of technical assistance focus on cost-cutting and better management. But what about measures to make the market for technical assistance work better?

The market for experts and trainers suffers from missing and imperfect information and principal-agent problems. If donors and recipients can get better information on the quality of personnel, their availability, the scope of work and feedback on performance, this could improve the functioning of the labour market and lead to lower costs and better allocation of resources. These issues are not unique to the market for development experts and there may be lessons to be learnt from the private sector, including the freelance service sector.

The growth of virtual marketplaces and workspaces offers some solutions to high transaction costs and imperfect information. Over the last decade the growth of web-based solutions has transformed the market. For example, Elance.com helps more than 200,000 clients to find, buy, manage and pay for external services and contractors from more than 2,000 suppliers across 50+ services categories, including information technology, consulting, contract and temporary labor, marketing, print, human resources, engineering, maintenance and facilities. Web-based marketplaces, such Elance.com, and also its development equivalent Devex.com, contain fully searchable information on providers, including evaluations and feedback on quality. The web-based workspace enables the management of projects, including performance milestones, submission of outputs, payment and feedback.

5. Innovations to improve donor quality

This section provides some examples of aid innovations that aim to improve the quality of aid recipients. The geographical and political separation between donors and beneficiaries has created a 'broken feedback loop' (Barder, 2009) in the delivery of foreign aid. Taxpayers in donor countries have no knowledge of programs financed by

their governments and the intended beneficiaries have no political leverage over the agencies that determine the flows of aid to their country. This breakdown of feedback in the system undermines performance of aid donors because they are not subject to the accountability and feedback mechanisms that govern the rest of the public sector in developed countries (Howes, 2011). Some innovations that have been adopted in this area include: selectivity, transparency, independent evaluation, crowdsourcing aid information and feedback, selectivity, volatility.

5.1. Increased selectivity

Aid agencies differ from most domestic agencies because of the breadth of their coverage. Aid agencies are expected to work across many regions in a variety of sectors. This imposes a significant knowledge burden on aid agencies (Howes 2011), creating a risk that aid experts will lack the knowledge to implement development objectives effectively. Various aid agencies have begun to realise the breadth of their activities are limiting development objectives, and have taken considerable and varied steps to tackle the knowledge burden their staff face.

The most common approach to reducing the knowledge burden is through reducing aid partners and increasing selectivity of sectoral involvement. By limiting their focus, both regionally and in the scope of sectors they are actively involved in, donors can build expertise and trust in certain areas where they are committed to achieving development results. This is an area in which rhetoric can easily outstrip results. There are, however, some successes, or at least encouraging efforts. Donors in the European Union have agreed to work in no more than three sectors in any one country, and UK DFID has announced that it will close 16 of its bilateral programs by 2016 (Independent Aid Review, 2011).

5.2. Aid transparency

Transparency has now become a critical part of promoting a story of successful development. Through transparency 'donors and recipients can be held accountable for what they spend, more players can become actively engaged in development efforts by identifying underserved areas and niches, and aid can be more effective through learning' (Kharas 2010, p. 258). Donor governments have also realised that in order to

maintain a continued scaling-up of aid, they must make their aid flows more transparent and accountable. Agencies have committed to transparency through a variety of policy responses.

In the past two years, for example, the World Bank has undergone a radical shift in its disclosure paradigm. In 2009 the Bank accepted a proposal that would shift its disclosure policy from one that spells out what the Bank may disclose, to one that presumes that the Bank will disclose any information in its possession that is not on a list of exceptions (World Bank 2009). This policy of full disclosure, mainly shown through its website, is presenting challenges in displaying the wealth of available information, collected in some instances over 50 years. The World Bank has also initiated the 'Open Data Initiative',⁶ which provides free access to more than 2,000 indicators on developing countries from around the world. Both of these initiatives are driven by a desire to foster public ownership, partnership and participation in development from a wide range of stakeholders (World Bank 2009).

DFID has also made radical adjustments to their disclosure paradigm. On June 3 2010 the UK government introduced a new 'Aid Transparency Guarantee',⁷ pledging to make their aid system fully transparent to citizens in both the UK and recipient governments. The transparency guarantee will begin on DFID's website from January 2011. Monthly spending information is already available on the DFID website.

EuropeAid has also made promises to report on its activities in an accurate, accountable and transparent manner, with major evaluations now available on its website. Other major bilateral agencies, including Australia, Japan and Germany, are also making greater efforts to increase the accountability and transparency of their aid flows, but still lag behind the initiative displayed by DFID and the World Bank towards complete disclosure. A number of agencies have signed up to the International Aid Transparency Initiative or IATI (see Box 2).

While these new initiatives are clearly a step in the right direction towards increasing the effectiveness of aid, considerable work is needed in improving the accessibility of

⁶ The 'Open Data Initiative' website: <http://data.worldbank.org/>

⁷ See Website: <http://www.dfid.gov.uk/Global-Issues/What-transparency-means-for-DFID/UK-Aid-Transparency-Guarantee/>

information. It is pointless to publish information about donor activities and initiatives online if the websites cannot be easily navigated and the information is not disseminated to the widest possible audience. Donors could take note of the Bill & Melinda Gates Foundation's grant database. The Foundation provides online listings of every grant distributed by the program, outlining information including the goals, timeline and contact website of the grant holder⁸. A detailed search function allows users to easily filter information to find specific projects in their focus area. Another example is the USAID dashboard function,⁹ which is easy to navigate, presents data in intuitive graph and visualisations, as well as numbers, and provides sectoral information on commitments and disbursements to all recipient countries. All of the data is also updated to 2012 commitments. Without databases of this nature to filter and properly categorise information, accountability and transparency of aid projects will not be achieved.

Box 2: The International Aid Transparency Initiative

The International Aid Transparency (IATI) was launched at the Accra Agenda for Action Summit 2008. Its objectives are to make information about aid spending easier to 'access, use and understand' and to help implement the transparency commitments of the Accra Agenda for Action.¹⁰

The IATI will attempt to develop consistent and coherent international standards for the way donors report information about aid spending. It will not create new databases or replace existing work and information but build on – and go beyond – the standards and definitions that have already been agreed.

As of 2010, the IATI was undertaking 'Proof of Concept Pilot Studies' in six partner countries, further discussing the exact code of conduct for IATI signatories and encouraging more donors and partners to join the. IATI has also formed the definitions, data structure and format of phase 1 of the proposed IATI standard, of which four to five signatories will start to implement by December 2010, and will aim to implement before

⁸ The Gates Foundation Database can be found here: <http://www.gatesfoundation.org/grants/Pages/search.aspx>

⁹ USAID Country Dashboard: <http://foreignassistance.gov>

¹⁰ A full list of signatories of the IATI can be found at: <http://www.aidtransparency.net/whos-involved>

November 2011 (IATI 2010). The IATI expects to launch its phase 2 set of standards and a registry for reporting aid spending at the 4th High Level Forum on Aid Effectiveness in Busan 2011. Upon completion of phase 2 standards and registry, IATI expects to disband with activities being transferred to other organisations.

Source: (IATI 2010) and the IATI Website: <http://www.aidtransparency.net/>

5.3. Independent Evaluation

Independent evaluation has been present in multilaterals for decades. The World Bank established the Independent Evaluation Group in 1973, an (increasingly) independent unit within the World Bank Group. The Asian Development Bank has maintained an Independent Evaluation Department for over three decades, which is progressively becoming more independent from the ADB itself.¹¹ While multilaterals have had independent evaluation for a long time (underpinned by reporting directly to their Banks' shareholders, bypassing the Presidents of two institutions), it has long been considered that independent evaluation was an unrealistic aspiration for bilateral agencies. This modality of thinking is now being challenged.

In 2010 DFID announced an 'Independent Commission for Aid Impact' (ICAI), an independent body designed to ensure aid projects are delivering maximum value for money (DFID 2010b). The Commission is expected to lead the world in aid accountability, combining both audit scrutiny and development evaluation.¹² This information will all be freely and immediately available on its website without government interference. The Independent Commission was launched in 2011 and has begun publishing reports.¹³

Sweden, through the Swedish Agency for Development Evaluation, has maintained a government-funded independent agency to evaluate Swedish international development cooperation since 2006,¹⁴ though it was established in a different location to the Swedish agency, and its effectiveness is still to be demonstrated. The United States has

¹¹ See <http://www.adb.org/Evaluation/>

¹² Independent Commission for Aid Impact Press Release: <http://www.dfid.gov.uk/Media-Room/News-Stories/2010/New-independent-commission-unveiled/>

¹³ See <http://icai.independent.gov.uk/>

¹⁴ SADEV website: <http://www.sadev.se/en/About-SADEV/>

long been subject to monitoring by the independent USAID Office of the Inspector General and has recently announced its own aid evaluation policy.

5.4. Crowdsourcing aid information and feedback

While the internet and social media are not yet ubiquitous in developing countries, over the last decade there has been stellar growth in the use of mobile phones. According to recent data,¹⁵ there are about 5 billion mobile phone subscribers globally, of whom 840 million are in China, 820 million are in South Asia and 500 million are in sub-Saharan Africa.

There are a growing number of initiatives that make use of mobile phones to monitor projects and get feedback from beneficiaries. Here are just a few examples. Daraja, an NGO in rural Tanzania aiming to make local government more responsive to communities, is using SMS messaging to provide feedback about which water points are working.¹⁶ GlobalGiving, a charity fundraising website for social entrepreneurs in developing countries, is using Ushahidi, a tech NGO working on software for information collection and dissemination, and working with Map Kibera,¹⁷ a citizen reporting network based in Kenya, Nairobi. They have been training volunteers to collect stories about any 'community effort' and posting them to a public SMS-feedback-enabled website. Other examples include SMS-based systems (e.g. Ushahidi's crisis reporting), smart-phone systems (e.g. Kenyan crop insurance) and web-based systems (e.g. eMoksha's Fix Our City).¹⁸ MobileActive, a global network aiming to improve the use of mobile technology as a tool for social impact, is putting together a list of similar projects.¹⁹

Many developing countries are making strides to connect communities through mobile phones and other technologies. This is an important opportunity for donors to fix feedback loops from recipients to implementers, donor agencies and taxpayers. Once this tipping point is reached, will development aid ever look the same again?

¹⁵ See <http://www.bbc.co.uk/news/10569081>

¹⁶ See website: <http://www.daraja.org/our-work/rtwp>

¹⁷ See websites: <http://www.globalgiving.org/>, www.ushahidi.com, <http://voiceofkibera.org/>

¹⁸ See websites: http://www.ted.com/talks/erik_hersman_on_reporting_crisis_via_texting.html; http://www.economist.com/node/15663856?story_id=15663856; <http://www.emoksha.org/>

¹⁹ See website: <http://mobileactive.org/>

5.5. Smoother (less volatile) aid

A recent survey on the implementation of the Paris declaration (OECD 2008) showed that in any average country only 45% of aid arrives when promised (Deutscher et al 2008). The aid shocks faced by aid-dependent nations as a result of aid volatility are comparable in size and frequency to major global economic shocks faced by developed countries. This volatility is often caused by humanitarian aid responses to shocks, donors being too discretionary or crises in the international system, often funded by the re-prioritisation of funds away from development projects (Kharas 2009a). Kharas (2009a) estimates the deadweight loss of such high volatility, which is also pro-cyclical, to be in the order of 15–20% of net ODA or about US\$18 billion annually. Donors have undertaken mixed policy responses with regards to their discretionary practices.

An example of how donors can consider institutional arrangements that would help reduce this volatility can be found in Scandinavian countries, which maintain parliamentary approval of priority countries for aid allocations and strategies. These parliamentary discussions and decisions allow donor agencies to put in place longer-term commitments (Desai & Kharas 2010). Other bilateral agencies are also slowly moving towards multi-year commitments to individual countries (Kharas 2008), which can also help to reduce the overall volatility of aid contributions. These commitments to reducing aid volatility are only slowly being implemented and they impact only a small portion of net ODA contributions (Desai & Kharas 2010). If policymakers choose to take aid volatility more seriously, there are some technical proposals available for piloting that could help limit overall volatility.

One example, by Berg et al (2010), proposes that the IMF should permit countries to draw upon foreign exchange reserves when there is a shortfall on aid. Proposals such as this, along with others such as budget insurance and counter-cyclical budget support (Kharas 2008), could have considerable impact on aid volatility and should be further discussed.

6. Conclusions

This paper has outlined recent innovations that have been undertaken in the global aid and development architecture. The breadth and size of these innovations, taking place in most major donors, is indicative of the growing pressure to improve the overall effectiveness of aid expenditure.

The first set of innovations described were measures to improve the quality of aid recipients. They focus primarily on linking aid more closely to performance. This is being done both through improving ex-ante selectivity and shifting to ex-post, results-based verification.

The second set of innovations outlined were measures to change and improve how aid is given and the way in which donors and recipients interact. For various reasons harmonisation and alignment are failing to be implemented at an acceptable pace. But donors have begun working through alternative channels, notably NGOs and the private sector, particularly in health and pharmaceuticals benefiting from greater information, expertise, networks and new technologies that would otherwise be unavailable to them. Other innovations aiming to change the way aid is given include increasing the selectivity of bilateral partners and sectors and the creation of global virtual networks for collaboration that can help reduce the knowledge burden and market-based reforms to improve the effectiveness of technical assistance.

The final set of innovations discussed were those to improve the quality of aid donors. Individual donors are taking a variety of different steps towards improving their overall effectiveness including increasing selectivity, making aid transparency a central component of development, strengthening the role of independent evaluation (an innovation for bilateral agencies), expanding the use of crowdsourcing to improve information and feedback on aid interventions, and reducing aid volatility. These steps will help donors to learn more and scale up programs that work, improving the quality of aid delivered at the same time as justifying their existence to the taxpayer.

These innovations show that in the 21st century, aid agencies can adapt and evolve in response to the changing global architecture around them. A combination of collaborating with new partners and experimenting with new approaches will enable

them to do this. . This paper demonstrates that there is clearly a wide variety of approaches and ideas as to how to improve aid effectiveness. Not all of these innovations will work, some are still in the experimental phase (one is yet to be adopted by donors at all – the use of e-contracting in technical assistance) and some may simply be bad ideas, but that should not limit donors from continuing to push the boundaries of aid delivery and effectiveness. The key for donors is to start selecting good ideas for implementation now and to never stop exploring for new innovations to improve aid effectiveness.

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