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# Transformation of a Policy Area

Development Policy Is in a Systemic  
Crisis and Faces the Challenge of a  
More Complex System Environment

*Guido Ashoff*  
*Stephan Klingebiel*



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**Guido Ashoff**, German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE),  
Senior researcher

E-mail: [guido.ashoff@die-gdi.de](mailto:guido.ashoff@die-gdi.de)

**Stephan Klingebiel**, German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE),  
Head of department Bi- and Multilateral Development Cooperation, and regular Visiting Professor at  
Stanford University

E-mail: [stephan.klingebiel@die-gdi.de](mailto:stephan.klingebiel@die-gdi.de)

© Deutsches Institut für Entwicklungspolitik gGmbH  
Tulpenfeld 6, 53113 Bonn  
☎ +49 (0)228 94927-0  
📠 +49 (0)228 94927-130  
E-Mail: [die@die-gdi.de](mailto:die@die-gdi.de)  
[www.die-gdi.de](http://www.die-gdi.de)

## Abstract

Since the 2000s, the international community has increasingly recognised two basic aspects of development cooperation. First, international development cooperation faces a systemic crisis. Because of the way it is organised and implemented, it is part of the problem it wants solve. As a response, there has been an attempt at system reform that, in terms of ambition and recognition, is unprecedented in the history of development cooperation. Second, the environment of development cooperation has changed considerably. This goes for both the development *problematique* to which development cooperation reacts and the global context in which it operates.



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## Abbreviations

BRICS	Brazil, Russia, India, China and South Africa
DAC	Development Assistance Committee
DIE	German Development Institute / Deutsches Institut für Entwicklungspolitik
ECDPM	European Centre for Development Policy Management
EU	European Union
G20	Group of 20
GPG	Global Public Good
INCAF	International Network on Conflict and Fragility
LDC	Least-developed Country
LIC	Low-income Country
MDG	Millennium Development Goal
MIC	Middle-income Country
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
WBGU	Wissenschaftlicher Beirat der Bundesregierung Globale Umweltveränderungen
WP-EFF	Working Party on Aid Effectiveness



## 1 Introduction

Since the early 2000s, the international community has come to acknowledge two fundamental issues regarding development policy.<sup>1</sup> The first is that the aid system is in crisis. The way it is organised and run has turned it into a part of the problem that it was meant to help solve. To overcome this crisis, attempts are being made to reform the system to an extent unparalleled in the history of aid in terms of ambition and international acceptance. The second issue is that the system environment<sup>2</sup> in which development policy is being pursued has undergone considerable change, both in terms of the development issues that this policy is responding to and with regard to the landscape in which it is operating. This is something that the Organisation for Economic Co-operation and Development (OECD) made unambiguous reference to in its Strategy on Development, adopted at the end of May 2012.<sup>3</sup>

Against this backdrop, it is no surprise to see publications such as “The End of ODA. Death and Rebirth of a Global Public Policy” (Severino / Ray 2009) and *Reinventing Foreign Aid* (Easterly 2008). However, these authors adopt a different outlook than those who are fundamentally critical of aid (e.g. Wolff 2005; Easterly 2002, 2006; Moyo 2009; Bonner Aufruf 2008, 2009), asserting that it has completely failed and is finished, despite having to accept some clear flaws in their own arguments.<sup>4</sup> The far more conceptually and politically discerning question to ask is how aid provision needs to be transformed in response to the systemic crisis and the changed system environment in which it finds itself.

This paper discusses the question in two parts. The first (section 2) deals with the crisis in the aid system and with its reform, whereas the second (section 3) addresses the

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- 1 There are three levels at which development policy comes into play: (i) the level of partner countries (improving local living conditions through development cooperation); (ii) international level (involvement in shaping global framework conditions and international regulations in line with development goals); (iii) domestic level (improving policy coherence for development, as well as providing information and delivering education on development and development cooperation). Section 2 of this paper focuses on development cooperation (aid), whereas section 3 examines development policy as a whole. Official development assistance (ODA) is finance that is recognised by the OECD’s Development Assistance Committee (DAC) as public aid.
  - 2 The term “system” is used pragmatically in this paper – with no connotations of system theory – and points simply to the different perspectives in play. It concerns both an inside and an outside perspective on aid.
  - 3 (i) “*The global economic landscape has changed beyond all recognition [...].*” (ii) “*The world’s centre of economic gravity is changing and developing economies are among the key drivers of global economic growth.*” (iii) “*There is a growing diversity of growth and development models [...].*” (iv) “*The nature of development financing is changing.*” (v) “*The geography and nature of poverty are changing which raises important questions for traditional approaches to development.*” (vi) “*Inequality is an increasing challenge in advanced and developing economies alike [...].*” (vii) “*Development challenges are global challenges.*” (OECD 2012, 2).
  - 4 Fundamental critics of aid base their arguments on actual mistakes and failures. However, these arguments are flawed for four reasons: (i) they wrongly take the observed deficiencies to be characteristic of the aid system as a whole; (ii) they mistakenly equate a lack of development progress with the failure of the aid system; (iii) the recommendations they make tend to be one-sided, simplistic and factually questionable; (iv) they fail to live up to their claim of offering suitable alternative solutions. For more details, see Ashoff (2010a, 30–32).

challenges facing development policy as a result of changes in the system environment. Section 4 provides a conclusion.

## 2 The aid system in crisis and in need of reform

Somewhere between the beginning and the middle of the last decade, the international community concluded that the aid system was in urgent need of reform.<sup>5</sup> A complex agenda to this end was drafted that was guided by the principle of aid effectiveness. The 2005 Paris Declaration on Aid Effectiveness, developed further by the 2008 Accra Agenda for Action and the 2011 Busan Partnership for Effective Development Co-operation (Paris/Accra/Busan agenda), saw all key bilateral and multilateral donors agree on principles and procedures – now endorsed by well over 100 partner countries – that significantly expand the regulatory framework of international aid and whose implementation will signify a quiet revolution of the aid system. What sort of crisis does the aid system find itself in? What does system reform look like? What results has it already achieved? And how is it evaluated from a theoretical perspective? These questions are addressed in the paragraphs that follow.

### 2.1 The crisis in the aid system

If, after almost six decades of dedicated work, actors in a policy area declare that drastic steps need to be taken in order to increase that area's effectiveness, then there is a serious problem. After all, a policy is meant to be effective by definition, otherwise its legitimacy is called into question. For years, the effectiveness of development cooperation has been the subject of intense debate and efforts. On the one hand, the pressure on international aid to justify its existence has increased considerably (crisis of legitimacy), whereas on the other, the system has become so complex that it is being rendered increasingly dysfunctional. There is more awareness of inherent problems, which, while not all new, are becoming more prominent as criticism of the system grows.

#### 2.1.1 Legitimacy crisis in international aid

There are two main reasons for the legitimacy crisis in international aid. The first is the unsatisfactory state of development in a large number of countries, many of which have received substantial amounts of aid despite the undeniable development progress made by other countries (see section 3). The second is the lack of – or disputed nature of – empirical evidence concerning aid effectiveness.

The following indicators suffice to illustrate the unsatisfactory state of development: (i) although the proportion of people living in extreme poverty (on less than US\$ 1.25 per

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5 “We, Ministers of developed and developing countries responsible for promoting development and Heads of multilateral and bilateral development institutions [...] resolve to take far-reaching and monitorable actions to reform the ways we deliver and manage aid [...]. [...] we recognise that [...] aid effectiveness must increase significantly” (2005 Paris Declaration on Aid Effectiveness).

day) fell by more than 50 per cent between 1990 and 2010,<sup>6</sup> there were still 1.2 billion people living below this extreme poverty line in 2010, and the World Bank expects there to be 970 million people living in extreme poverty in 2015. If the extreme poverty line were set at US\$ 2 per day, as many are calling for, then almost 2.5 billion people would have fallen into this category in 2008 (Chen / Ravallion 2012, 3, 6); (ii) although a range of countries that were in some cases counted as being among the world's poorest nations in the 1950s have now become emerging economies, or even highly developed countries (South Korea being the foremost example), there are still 48 countries classified as least-developed countries (LDCs), with three quarters of their total 880 million citizens living in poverty. Only three countries have managed to leave behind their LDC status over the last three decades (UN 2011b); (iii) 45 nations with a combined total of 1.2 billion citizens, among them many lower-middle-income countries, are classified as failing or failed states, in which basic governmental functions are either deficient or no longer existent (OECD / INCAF 2011).

Against this backdrop, it would be somewhat premature to declare the mission of aid as being accomplished. However, this observation is only "reassuring" for the aid system at first glance, as it must still ask itself what it has actually achieved over the last few decades if the situation is still as unsatisfactory as indicated. Of course, the aid system can point to its being just one influencing factor among many, making it impossible to place all the blame for insufficient development progress – and even regression – at its door. Although this is true, it is not an entirely convincing argument, as aid has at certain points in the past accounted for a considerable amount of the gross national income of many LDCs and fragile states (in some cases more than 20 per cent).<sup>7</sup>

However, the aid system is struggling to demonstrate its effectiveness. For a long time, aid actors have pointed to the resources they were deploying (inputs), the activities they were carrying out and the outputs they were providing as sufficient justifications for their work, especially as these things are relatively easy to document. Although it is now recognised that aid can only be considered effective when it has helped to bring about development progress (outcomes), allowing this belief to consistently inform the planning and implementation of aid interventions and the systematic evaluation of their impacts is still a significant challenge and, in the case of evaluation, a methodical one as well. Unfortunately, the numerous macro-quantitative analyses of aid effectiveness<sup>8</sup>

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6 From 47 per cent in 1990 to less than 22 per cent in 2010 (UN 2013, 7). As a result, the UN considers Millennium Development Goal 1 (to halve, between 1990 and 2015, the proportion of people living in extreme poverty) to have been achieved ahead of time for the developing world as a whole. However, it has been achieved primarily in China and India. Sub-Saharan Africa is not expected to reach this target by 2015, despite some progress having been made (proportion of citizens living in extreme poverty in 1990: 56 per cent; in 2010: 48 per cent; in 2015 (forecast): 36 per cent (UN 2013, 6; UN 2011a, 6–7)).

7 In 2008, ODA accounted for between 5 and 10 per cent of gross national income in 25 developing countries, between 10 and 20 per cent in 15 developing countries, between 20 and 30 per cent in seven developing countries, and over 30 per cent in five countries (OECD / DAC 2010, 228–231). And when it comes to state budgets, the proportions are even higher.

8 These international cross-section analyses use statistics to test whether there is a significant correlation between aid contributions and development (measured primarily in terms of growth in per capita income or poverty reduction). During the 50 years in which they have been carried out, these analyses

have tended to lead to more confusion rather than greater clarity, doing nothing to help the aid system to justify its existence.

### 2.1.2 Problems with the aid system

These problems, some of which are mutually reinforcing, result from the institutional structure of the aid system and the way it operates. There are three main problems: (i) fragmentation of the aid system as a result of considerable donor proliferation and project fragmentation; (ii) a whole range of principal-agent problems stemming from the complex constellation of actors in the aid system; (iii) the potentially negative economic and, in particular, political impacts of heavy ODA inflows in countries heavily dependent on aid.

The number of donors and projects has increased enormously at the global level and in individual recipient countries (World Bank 2008). Because of the large range of donors involved – often with different interests, priorities and procedures, as well as their own projects and programmes – transaction costs are substantial, partners are faced with a considerable administrative burden, and it is more difficult to coordinate donor contributions and integrate them into partners' strategies in a way that maximises their effectiveness. This results in a loss of efficiency and effectiveness, and it undermines the ability of partners to exercise ownership and shape things as they see fit.

From a principal-agent perspective,<sup>9</sup> the aid system is a complex constellation of actors with two ideal types of principals: the taxpayers in the donor countries and the target groups of aid interventions in the partner countries, who, ideally, both share a common interest in development. However, this is no longer necessarily the case for the contracting authorities in the donor and partner countries (that is, parliaments that approve aid budgets and national development budgets, and governments that agree aid programmes and national development strategies), nor does it automatically hold true for donor and partner agents (that is, ministerial bureaucracies and their subordinate administrations, implementing organisations, project managers and consultants).<sup>10</sup> This is where self-interests come into play, with asymmetric incentives, information and responsibilities limiting the efficiency and effectiveness of aid. As the range of objectives being pursued increases, decision-making processes become less transparent and the constellations of actors more complex. Then the system becomes increasingly unable to live up to the expectations of its original principals. There is a whole host of evidence of this problem that provides a key argument for those who are fundamentally critical of aid.

The negative impact of heavy ODA inflows into countries highly dependent on aid has been labelled from an economic perspective as “Dutch disease” (for an overview, see

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have yielded varying and, in many cases, contradictory results, and been the source of a great deal of controversy (McGillivray et al. 2006; Faust / Leiderer 2010; Alonso 2012, 11–12).

9 See Ostrom et al. (2002), Martens et al. (2002), Gibson et al. (2005), and Faust and Messner (2010, 260–270) among others; and from the fundamentally critical perspective, see also the authors mentioned in the introduction.

10 In practice, there are a whole range of principal-agent relationships (tax payers–parliaments; parliaments–governments; governments–implementing organisations; implementing organisations–project managers; project managers–target groups; clients–evaluators; bilateral donors–multilateral organisations).

Fielding / Gibson 2012), meaning that, unless macro-economic countermeasures are taken, heavy foreign currency inflows (e.g. from raw material exports and also from aid) tend to appreciate the currencies of partner countries, which has an adverse effect on export-oriented sectors, thereby reducing their international competitiveness. From a political perspective, heavy ODA inflows run the risk of leaving recipient governments less accountable to their taxpayers, discouraging partner countries from taking action themselves (e.g. increasing domestic savings and collecting tax revenue), and promoting rent-seeking behaviour by governments, administrations and the private sector (for an overview, see Moss / Pettersson / van de Walle 2008).

## 2.2 Reforming the aid system

### 2.2.1 Context and phases of system reform

Efforts to reform the international aid system – frequently referred to as the Paris/Accra/Busan agenda – form part of the more comprehensive international aid-effectiveness agenda, the context in which they gained their momentum in the first place. Responding to a let-up in aid efforts (aid fatigue) in the 1990s – a time when awareness was growing about the potential dangers of ongoing development problems – the international community has adopted a number of resolutions since 2000 that assign development policy an important role in efforts to safeguard our global future and also seek to significantly improve aid effectiveness in light of the aid system's inherent problems.

These resolutions concern four aspects of development policy that, only when taken together, are crucial to its effectiveness: (i) goals as a content-based yardstick for measuring the effectiveness of development policy: the United Nations (UN) Millennium Declaration and Millennium Development Goals (MDGs) adopted in 2000/2001; (ii) resources for achieving the MDGs: the UN's 2002 Monterrey Consensus on Financing for Development and follow-up commitments by the European Union (EU) and the G7; (iii) principles and procedures designed to ensure effective resource deployment and thereby improve aid effectiveness: Paris/Accra/Busan agenda; (iv) policy coherence for development – that is, other policies support, or at the very least, do not obstruct, the impact of aid – and all policies help to resolve global development problems (recognised at the UN, OECD and EU levels and by numerous donor countries, including Germany). The Paris/Accra/Busan agenda, which aims to reform the aid system in a more narrow sense (item (iii)), is often wrongly equated with the international aid-effectiveness agenda. Strictly speaking, it represents just one dimension of aid effectiveness – being to some extent the operating system of international aid – and cannot be viewed in isolation from the other three dimensions.

Reform of the international aid system thus far can be divided into two phases. The first phase ran up to the Accra High Level Forum (2008), being initiated and largely driven by the DAC<sup>11</sup> of the OECD, which set up a special Working Party on Aid Effectiveness

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11 Within the DAC, the OECD's bilateral donors coordinate and review the aid they provide. Multilateral donors, including the World Bank and the United Nations Development Programme (UNDP), have observer status and are involved in sub-groups.

(WP-EFF). The DAC members and DAC observers were joined in the WP-EFF by an initially small number of partner countries, civil society organisations and private foundations that grew following the Paris High Level Forum on Aid Effectiveness. Although the Paris Declaration and Accra Agenda for Action were adopted by a large number of partner countries and other actors, it was the OECD donors who were the driving force behind the WP-EFF.

This changed during the second phase, which reached its climax at the Busan High Level Forum on Aid Effectiveness (2011). Despite broad acceptance of the Paris Declaration and the Accra Agenda for Action, the DAC was frequently criticised for its lack of universal legitimacy. Consequently, efforts were made following Accra to achieve a broader basis for reforming the international aid system. As the UN's Development Cooperation Forum, set up in 2008, was not suitable for this purpose – due to differing interests within the UN and a lack of political support and institutional capacity – the WP-EFF continued its work. But, with silent acceptance by DAC members, it developed into a forum *sui generis*, incorporating a growing number of partner countries and other actors,<sup>12</sup> and was chaired jointly by a representative of the OECD donors and a representative of the partner countries (Egypt) (for more information about the process, see Atwood 2012). After the OECD representative stepped down in 2011, the Egyptian partner country representative assumed sole chairmanship of the WP-EFF. The Global Partnership for Effective Development Co-operation was set up in Busan. Its institutional structure was defined in 2012, and it is due to be fully up and running in 2013 (see below).

### 2.2.2 The first phase of system reform, driven primarily by the OECD

With the groundwork laid in the form of the Rome Declaration on Harmonisation (2003) and the Marrakech Action Plan on Managing for Development Results (2004), the Paris Declaration on Aid Effectiveness marked the first milestone in the reform of the international aid system. It was initially adopted in 2005 by some 30 bilateral donors, 25 multilateral organisations, 60 developing countries and several civil society organisations.

The Paris Declaration defines five principles for effective aid: ownership, alignment, harmonisation, managing for results and mutual accountability. It aims to see partner countries (with support from donors) creating the conditions for effective aid by exercising ownership, drafting operational development strategies with broad participation, establishing reliable public finance and procurement systems, and coordinating donor contributions. Donors commit to respecting the leadership roles of partner countries, bringing their contributions into line with the priorities, strategies, skills and procedures of their partners, and harmonising their own procedures. Donors and partners are both responsible and mutually accountable for managing aid with a

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12 Following Accra, the WP-EFF was expanded to include five groups of actors: (i) countries in receipt of aid (24); (ii) countries both receiving and providing aid (7); (iii) OECD donors (30); (iv) multilateral organisations (9); (v) other members (5, including representatives of civil society and the Inter-Parliamentary Union). See also Kindornay and Samy (2012, 5).



focus on results. The five principles were specified in the form of 56 commitments, 12 of which were operationalised using indicators, with the time horizon set at 2010. Although many commitments (such as those to use the public finance and procurement systems of partner countries, to harmonise procedures and to practise the division of labour) can appear rather technical at first glance, they are quite sensitive politically, as they imply changes to the ways that actors allocate roles, go about their activities and pursue their interests.

The principles that the Paris Declaration sets forth are by no means new. Ownership and alignment, for instance, correspond to the old principle of helping people to help themselves. What is new about the Paris Declaration is that, for the first time in the history of the aid system, it defines common principles and numerous procedural rules for a large number of donors and partner countries, thereby significantly expanding the international regulatory framework for aid. This framework incorporates targets, standards and guidelines that have been agreed by the UN, the OECD, the EU and other organisations.

In light of the experience gained in implementing the Paris Declaration and the subsequent close examination of its contents by state aid providers, civil society and academia (for further details, please see Ashoff 2010a, 56–61), the Paris agenda was further developed in three regards at the 2008 Accra High Level Forum, giving rise to the Accra Agenda for Action. Firstly, it became more political. Two of the issues stressed in the Accra Agenda for Action were the important roles played by parliaments and civil society in partner countries and the fact that all policies are jointly responsible for achieving international development goals (policy coherence). Secondly, several of the commitments in the Paris Declaration were specified further (e.g. those to use the systems of partner countries, practise division of labour, carry out technical cooperation in a demand-driven way and untie aid). Thirdly, the Accra Agenda for Action pointed to the growing significance of other actors (emerging economies as new donors, global funds, private sector, civil society), as well as the related coordination problems, and called for more effective and inclusive partnerships with regard to the goal of poverty reduction.

### 2.2.3 Results from the first phase of system reform

Barely any other policy reform has undergone such comprehensive comparative analysis at the international level within just a few years of its inception as has the reform of the aid system, which was introduced in Paris and further developed in Accra. On the one hand, the implementation of the Paris Declaration was monitored by the OECD in three surveys carried out in 2007, 2008 and 2011. Although they only dealt with the 12 of the 56 Paris commitments that had been operationalised, these surveys covered 33 donors and, ultimately, 78 partner countries. The OECD described the results as sobering, since just 1 of the 12 commitments monitored had been met in full by 2010. That being said, significant progress had been made with the other commitments, particularly by the partner countries (OECD 2011a, 15).

On the other hand, both the implementation and effectiveness of the Paris/Accra agenda were examined through an independent evaluation carried out in two phases (2007–2008 and 2009–2011). Although this evaluation took into account the results of the monitoring surveys, it went much further<sup>13</sup> and is considered to be one of the most comprehensive evaluations ever carried out in the history of international aid. The final report (Wood et al. 2011) synthesises the findings of more than 40 country studies (including 21 partner country studies) and several thematic studies. The evaluation results can be summarised as follows.

*Relevance of the Paris Declaration:* The five principles and virtually all the commitments of the Paris Declaration were found to be relevant to improving aid effectiveness and applicable to all forms of international aid (hence including South-South cooperation, for example).<sup>14</sup> This means that poor implementation cannot be attributed to fundamental doubts about the relevance or usefulness of the commitments.

*Implementing the commitments (output level):* Measured against the 2010 time horizon, implementation of the commitments had been slow on the whole, albeit with significant differences between the commitments and between individual donors and partner countries. Overall, donors made less progress than partner countries, despite fewer requirements and greater capacity.<sup>15</sup> The evaluation had the following to say about the five principles of the Paris Declaration: “*country ownership has advanced farthest, with alignment and harmonization progressing more unevenly, and managing for development results and mutual accountability advancing least*” (Wood et al. 2011, xv).

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- 13 Aid evaluations examine the following aspects of an intervention or programme: (i) relevance (fitness for purpose); (ii) implementation (delivery of the services stated, output level); (iii) direct results (outcome level); (iv) longer-term development impact (impact level); (v) sustainability of results. The OECD monitoring surveys in question only examined the output level (aspect (ii)), whereas the international evaluation of the Paris Declaration also dealt with relevance (aspect (i)), the system improvements achieved (aspect (iii)) and the development impact (aspect (iv)).
  - 14 The synthesis report is based on assessments by aid actors (donor and partner institutions operating within the aid system) surveyed as part of the country studies and reflects the fact that the principles and commitments of the Paris Declaration were not developed from theoretical concepts, but rather in response to problems that had emerged in aid practice over the course of many years (Wood et al. 2011, xv, 10). This also explains the apparent contradiction between the evaluation, which confirmed the relevance of the Paris Declaration, and representatives from a range of theoretical backgrounds, who criticised the declaration (see 2.3 below). They are each using different frames of reference.
  - 15 Regarding *progress made by donors*, the main improvements had been as follows: less duplication of work, simpler procedures, more delegation of responsibility to their representatives in partner countries, greater accountability to their parliaments and the public, increased transparency, and reduced corruption. By contrast, reforms are needed when it comes to the incorporation of donor contributions into the budgets of partners, joint programme approaches, conditions and analyses, and the predictability of donor contributions. Most of the *progress made by partners* was in the drafting of national development strategies (albeit less so in the areas of operationalisation and budgetisation), in improvements to public financial management and procurement systems, and in the practice of managing for results. By contrast, barely any headway was made in terms of improving accountability to parliaments and citizens and fighting corruption (Wood et al. 2011, 19–22; OECD 2011a, 15, 19).

*System improvements (outcome level):*<sup>16</sup> The evaluation painted a disappointing picture with regard to aid efficiency, but was cautiously optimistic in its assessment of aid management and the issue of better partnerships. Initially, the reforms did not yield the expected decrease in aid transaction costs. Instead, costs often increased further (for donors more than partners) as a result of more complex coordination processes. However, according to the evaluation, these costs did not cancel out the positive changes. There had been some partial progress (see footnote 15) with regard to improving the management of aid compared with the situation pre-2005. The same applies to donor-partner relationships, which had been marked on the whole by increased ownership by partners, greater transparency and more systematic dialogue and cooperation.

*Development impact (impact level):* This is ultimately the decisive yardstick, as the reform is not an end in itself. The results of the evaluation are very limited here. The synthesis report attributed this to three reasons. Firstly, little time had elapsed since the Paris Declaration had been adopted. Secondly, there had been significant barriers to development during this period. Thirdly, insufficient empirical evidence restricted the impact analysis. The health sector, which was examined more closely in partner country evaluations, was the only area in which the evaluation identified a positive development impact, with no such impact identifiable with regard to improving the situation of the world's poorest.

*Conclusions reached by the authors of the synthesis study:* (i) the progress that had been made and the fact that some donors and partners had made more headway than others mean that the path that they have all started down is passable, but difficult. It was unrealistic to expect very rapid and far-reaching reforms in just a few years; (ii) the deficits in implementation mean that the system reform agenda has yet to be completed. Consequently, the Busan High Level Forum on Aid Effectiveness explicitly confirmed the commitments of the Paris/Accra agenda; (iii) nonetheless, the reforms must be adapted to a greater degree to the different circumstances of partner countries in terms of weighting, priority and time horizon, while also becoming more binding;<sup>17</sup> (iv) the reform of the aid system had produced a substantial superstructure of standards (Rome, Paris, Accra and Busan declarations and many other documents) and institutions (the growing number of increasingly large coordination forums). As it is the implementation of the reforms that counts, related efforts need to be more strongly focused on partner countries, since it is at this level that aid effectiveness has ultimately to be achieved. This can serve to streamline management of the process as a whole; (v) as the development impact of the system reform ultimately depends on the extent to which aid contributes to development progress and the results produced by the evaluation have so far been limited in this regard, greater efforts are needed to evaluate this aspect.

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16 In this context, the evaluation assessed the extent of improvements in three areas: aid efficiency, aid management and partnerships between donors and partners.

17 The evaluation made a number of proposals in this regard, including the conclusion of longer-term agreements between partners and donors on goals and time horizons for reforms and donor contributions, as well as the establishment of annual forums to coordinate activities and enable mutual evaluation (Wood et al. 2011, xvii). These proposals were adopted in the Busan declaration in the form of country-specific results frameworks and the corresponding country-specific monitoring process (see below).

Two findings of the evaluation appear to be particularly important. Given that the principles and most of the commitments of the Paris Declaration have proven to be relevant for practical application, it is not necessary to set up a brand new programme to improve aid effectiveness. If this were necessary, then it would set the reform of the international aid system back several years. At the same time, the authors of the synthesis report pointed out quite rightly that because the changes being pursued concern a system that has developed over many years and call into question path dependencies and institutional interests, they are not simply technical in nature, but, ultimately, political. This does not discredit the route being taken with the reforms. International agreements governing a policy area tend to operate at the factual level, where problems manifest themselves. It is then up to the actors involved to implement the agreements at both a technical and political level, which can involve many different challenges.

#### 2.2.4 Phase 2 of system reform, up to the establishment of the Global Partnership for Effective Development Co-operation

The system reform was reviewed once more at the Fourth High Level Forum on Aid Effectiveness in Busan (South Korea) at the end of 2011 and developed further with the following results: (i) the commitments made in Paris and Accra were endorsed in full and new ones added, some with time horizons and some without. The signatories of the Paris Declaration and the Accra Agenda for Action pledged to fully implement their existing commitments, as well as the new ones; (ii) important new aid actors, including the BRICS countries (Brazil, Russia, India, China and South Africa), which had been on the outside prior to Busan, were integrated into the reform process, meaning the Global Partnership for Effective Development Co-operation<sup>18</sup> could truly live up to its name. This had been a contentious issue until shortly before the end of the forum, with China in particular regarding the Paris agenda as OECD-driven and not considering itself bound by the commitments. The outcome document revealed “*shared principles, common goals and differential commitments for effective international development*” as the common denominators in the compromise that was reached. The new donors accepted that they were part of the reform process, recognising its goals and principles while at the same time seeing themselves as actors in South-South cooperation for whom the Paris and Accra commitments serve simply as voluntary guidelines; (iii) implementation will be monitored at two levels in the future: in partner countries on the basis of country-specific results frameworks, and globally using selected common indicators;<sup>19</sup> (iv) the agenda was broadened from aid effectiveness to development effectiveness. This was a conclusion drawn from the fact that other foreign resource flows (such as direct investment, remittances by migrants to their home countries and climate finance) and the private sector are playing an increasingly significant role in the development process alongside aid. Aid

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18 This partnership has been endorsed by 158 countries, 39 international organisations (including Arab funds and global funds) and seven other organisations (including the Bill & Melinda Gates Foundation).

19 Ten indicators (some with operationalised targets for 2015) were agreed in mid-2012 for global monitoring. Some were taken from the Paris Declaration, whereas others are new (such as those relating to the enabling conditions for the involvement of development-oriented organisations from civil society and to gender equality).

is to act to a greater extent as a catalyst, ensuring that these flows and the private sector promote development wherever possible.

The issue of the future institutional structure of the Global Partnership for Effective Development Co-operation was not resolved in Busan, but rather half a year later. The solution found in mid-2012 operates at three levels: ministerial meetings to be held every 18 to 24 months; an 18-member steering committee representing all country and actor groups (traditional donors, non-traditional donors, partner countries, parliaments, civil society, the private sector); and a secretariat set up by the OECD and UNDP. The adoption of this solution marked the end of the WP-EFF. The steering committee has since met on several occasions, and the first ministerial meeting is scheduled for April 2014 in Mexico.

The new Global Partnership represents a paradigm shift (Kharas 2012, 2) and a milestone (Sondermann 2012). It has been accepted by the traditional donors within the OECD, who have played a decisive role in shaping the international aid system over several decades by virtue of the size of their aid contributions and the standards they have set – namely, that international aid requires an inclusive framework in order to be effective, a framework that offers all relevant public and private actors from the Global North and the Global South an opportunity to make their voice heard, and to be involved. This transformation is seen in the disbanding of the WP-EFF after the new structure was adopted. This is something that very rarely occurs with international organisations, in conjunction with the fact that the OECD now has only one seat as an organisation on the steering committee. The Global Partnership will only succeed to the extent to which all parties – not least the emerging donors (BRICS countries and other partners of South-South cooperation) – take the new forum seriously and work together to find solutions (Besharati 2013).

### 2.3 Evaluating aid system reform from a theoretical perspective

Academic discussion of the reform of the aid system has so far been critical, especially from the perspective of political economics, institutional economics and governance.<sup>20</sup> By contrast, there is another theoretical perspective that has barely been examined to date, and for which the reform provides an interesting case study, namely regime theory.

#### 2.3.1 Criticism from a political economics perspective

This criticism is directed at the failure of the reform agenda to take power relationships into consideration (Hyden 2008) and at the technocratic understanding of the state and social processes in partner countries (Alonso / Garcimartín / Martin 2010, 40–42; Alonso 2012, 15–16), seeing that there is a risk of expectations not being fulfilled regarding ownership and alignment. According to the critics, ownership cannot simply be taken for granted – it is a goal that first needs to be achieved in many cases. The Paris Declaration

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20 Academic discussion of the transformation of development policy, the subject of this paper, has so far essentially focused on aid system reform within the context of the Paris Declaration, which is why this sub-section is included at this point. Owing to the diverse range of processes involved, there is no comparable *focused* theoretical examination of the changes in the system environment of development policy referred to in section 3 of this paper.

does not address the question of what to do in situations where there are insufficient levels of ownership (Booth 2011). Critics call for power relationships; political, economic and institutional interests; incentive systems; and reform constellations to be examined, and for aid agreements to be concluded on the basis of the best fit for specific countries, rather than on a general best-practice basis (as also proposed by Duncan / Williams 2012).

Faust (2010) shares the criticism of the way the Paris Declaration addresses ownership. He is also unconvinced by calls made by civil society for the term to be developed into “democratic ownership”, seeing this as being even further removed from realities in many partner countries. He also sees a need to distinguish between policy ownership (broad political and societal consensus on long-term reform projects) and procedural ownership (broad consensus on the democratic principles for forming governments and formulating policy). According to Faust, the iterative and experimental nature of political decision-making processes means that policy ownership is frequently absent even in developed countries. Consequently, he argues that, when it comes to their expectations of ownership by partner countries, donors should focus on procedural ownership, attaching conditions to this kind of ownership rather than to the submission of complex, long-term reform agendas. However, this argument is not entirely convincing. The fact that the international community has agreed on basic development goals in the Millennium Declaration that are binding on all its signatory states (and that are being further developed for the period after 2015) is progress in itself. Even if reform processes are (potentially) iterative and experimental, a longer-term form of orientation is essential.

### 2.3.2 Criticism from an institutional economics perspective

This criticism is aimed at the failure of the Paris Declaration to resolve the principal-agent problems within the aid system. Critics claim that the principle of mutual accountability, in particular, fails to recognise the disparity in interests and responsibilities between the different actors. Two approaches have been put forward for helping to make aid more effective under these conditions. On the one hand, calls for greater transparency in the aid system have attracted more attention, reflected at the institutional level by the International Aid Transparency Initiative, which provides a global aid transparency standard. On the other hand, Birdsall and Savedoff (2010, 8–14, 17–18) have proposed the conclusion of agreements between donors and partners on specific development outcomes, with donors providing cash on delivery. Discussion of this approach has shown that it would appear promising in certain areas with stringent cause-and-effect chains (e.g. health care), but complicated to implement in other areas, where it risks having a disincentivising effect (Klingebiel 2011).

### 2.3.3 Criticism from a governance perspective

There are two points of criticism from this perspective (Faust / Messner 2010, 272–283; critical response by Ashoff 2010a, 58–60): (i) reform of the aid system has failed to achieve a reduction in the large number of donors required to directly overcome the fragmentation of international aid and the high transaction costs that result from it. It is true that there is no international agreement on the withdrawal of bilateral and

multilateral donors from the aid system. However, the Paris/Accra/Busan agenda calls upon donors to practise division of labour, which is something that the EU addressed in its 2007 Code of Conduct on Complementarity and Division of Labour in Development Policy, and which is nothing other than a clear call to reduce the number of donors operating in one country or sector; (ii) the Paris Declaration is assumed to be based on a planning illusion. What is needed is more operational competition between donors rather than harmonisation and sectoral fine-tuning by excessively large groups of donors. There are several points of misunderstanding in this second point. The commitment to harmonisation in the Paris Declaration refers to procedures (not concepts) and is a dictate of economic reason. Correctly understood programme-based approaches and sectoral and general budget support do not seek to achieve sectoral fine-tuning at all, but rather agreement on development goals at the sectoral and macro levels and on donor contributions. Operational competition is achieved when donors actually use the procurement systems of partners and when partners allow donor-financed services to be tendered at the international level.

### 2.3.4 Considerations from a regime theory perspective

The Paris/Accra/Busan agenda provides a case study of international regime formation that, with a few exceptions (e.g. Tatge 2008), has barely been discussed as such to date.<sup>21</sup> Examining the reform agenda from a regime theory perspective is heuristically beneficial in two regards. Firstly, it is interesting with regard to the global governance discussion. A key criticism of regime theories pointed out by Messner and Nuscheler (2003, 10) related to the loss of synthesis as a result of concentrating on a large number of specialised regulations; therefore regimes can only produce selective and partially “regulated anarchy”. Taken at face value (if regime theorists actually fail to consider anything else outside of their regime framework), this criticism would surely be correct. However, in the continued absence of a comprehensive global governance architecture for effectively tackling global issues (of which there is currently little prospect), it can be helpful to look at the building blocks of such an architecture, regimes being one of them.

What is striking about the Paris/Accra/Busan agenda is that it succeeded in getting a very large and diverse group of actors to commit to common principles, rules and monitoring mechanisms in order to solve a common problem. The challenge is now not so much to achieve input-oriented legitimacy – as its standards and principles are now globally recognised and its specific commitments broadly accepted after Busan – but rather output-oriented legitimacy (goal achievement). The regime has significantly shaped the international discourse on aid and, in a relatively short space of time, proven itself to be at least partially effective, with progress made in the way the aid system operates and a partial impact made on development (see section 2.2.3). Finally, the regime has made considerable headway in terms of expanding its framework, with

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21 This may be due to the fact that regime theory was at its height in the 1980s and 1990s before being overshadowed by the concept of global governance, which sees international regimes as a building block in a more comprehensive global governance architecture (Messner / Nuscheler 2003, 10).

the inclusion of non-governmental actors (creation of sub-regimes that are themselves changing the behaviour of the parties involved).<sup>22</sup> In other words, progress can certainly be observed below the threshold of a comprehensive global governance architecture when it comes to tackling specific global problems.

The regime theory perspective is also helpful in bringing the conditions for the success of the Paris/Accra/Busan agenda more sharply into focus. It is known from regime theory that the success of regimes depends on two key factors: firstly, the willingness of those involved to comply with the common rules as well as mechanisms to promote compliance, and secondly, a clear separation of the regime in question from other regimes (no overlaps or competing claims to validity).<sup>23</sup>

As far as the first aspect is concerned, as with most regimes, the Paris/Accra/Busan process has no means of imposing sanctions where rules are violated, but rather can only attempt to exert peer pressure through its monitoring process. This approach represents a soft law, with no mechanism for issuing sanctions (Dann / Vierck 2012). The peer pressure effect is weakened by the fact that the monitoring indicators are just one part of the agenda. This was already true of the Paris Declaration (only 12 of the 56 commitments were monitored using indicators) and also applies to the new indicators, valid until 2015, which, according to critics, fail to take any or sufficient account of some key aspects.<sup>24</sup> However, the Paris and Accra agreements led two independent institutions (Center for Global Development and Brookings) to develop a more comprehensive approach to measuring aid quality (31 indicators) based on the indicators in the Paris Declaration. This resulted in the publication of an international ranking, first issued in 2010 and then again in 2012 (Birdsall / Kharas / Perakis 2012), which, while lacking official status, is nonetheless a useful reference document for debate.

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22 Four indicators: 1. The originally inter-governmental approach of the Paris Declaration was broadened by: (i) recognising civil society organisations as actors in their own right within the international aid system; (ii) calling upon signatory states to observe the scope for action by civil society organisations; (iii) encouraging civil society to improve its own effectiveness as an aid actor. 2. The Paris Declaration provided significant impetus for the EU Code of Conduct on Complementarity and Division of Labour in Development Policy (2007). 3. The same applies to the Global Aid Transparency Standard introduced in 2011 (developed by the International Aid Transparency Initiative, which was set up at the Accra conference in 2008; signatories by mid-2012: 61 donors, 22 partner countries). The civil society initiative Publish What You Fund works to achieve greater transparency in the aid system and evaluates donors using the Aid Transparency Assessment. 4. As a result of the Paris Declaration and the Accra Agenda for Action, international civil society organisations adopted the Istanbul Principles for CSO Development Effectiveness (2010) and the International Framework for CSO Development Effectiveness (2011) in order to increase their own impact.

23 It is not always possible to prevent overlaps between regimes and competition between standards and requirements. A range of solutions have been discussed for these cases (Arndt et al. 2010).

24 For example, there are no indicators for measuring the reduction in donor fragmentation or the catalysing effect of aid on other resource flows and the private sector (Kharas 2012).



Regarding the separation of the Paris/Accra/Busan agreements from other international regimes, overlapping<sup>25</sup> does not pose a problem, as it does between international environmental and trade agreements, for instance. Rather, there are synergies and the potential for further synergies. If we understand the Millennium Development Goals, their national implementation plans and their monitoring processes as an international regime, then, as mentioned, they provided significant impetus for the Paris/Accra/Busan agenda. Moreover, it is possible to make use of initiatives and agreements (sub-regimes) in related areas when implementing the Busan agreements.<sup>26</sup>

### 2.3.5 Conclusions from the theoretical discussion

Examination of aid system reform from the perspective of political economics, institutional economics and governance sheds light on different internal functional requirements and deficits of the reform, and rightly highlights the political nature of the process, even though not all the arguments are convincing. Regime theory draws attention to the international context of the reform process. It shows that a significantly larger and globally recognised framework for solving problems in the aid system has been created in the space of just a few years, and that, although this framework has brought some partial success already, it still needs to be implemented to a much greater extent.

## 3 Development policy and aid against a backdrop of major changes in the system environment

The aid system environment with regard to partner countries has never been stable or stagnant in the past, but has rather been determined by processes of differentiation. The debate about emerging economies in the 1970s and 1980s and subsequent debates about “anchor countries” and regional powers were already marked by a desire to replace the image of a homogeneous group of “southern” countries with differentiated analysis of the pace of development and distinct development models (e.g. Menzel 1992). It was only in the 2000s that momentum on the development front saw not only the differentiation process evolving rapidly, but also the existing global economic and political structures undergoing permanent change.

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25 The emphasis in this context is on potential overlaps between international regimes. By contrast, there is indeed tension between some of the agreements of the Paris/Accra/Busan agenda and national standards and regulations. One example is the commitment made by donors in the Paris Declaration to make the greatest possible use of partner systems in the areas of public financial management and procurement. Some donors insist on using their own systems, arguing that there are deficiencies in partner systems. The Paris Declaration states that this argument is only justified where the systems of partner countries do not yet meet internationally recognised standards and calls upon donors to assist partners in bringing their systems into line with international standards.

26 For example, the International Budget Partnership when it comes to aid transparency, and the New Alliance for Food Security and Nutrition when it comes to encouraging the private sector to engage in activities that promote development (Kharas 2012).

### 3.1 Changes on the part of developing countries

#### 3.1.1 Geography of the momentum in development

Viewed over several decades, the group of countries recognised by the OECD/DAC donors as aid recipients underwent extensive changes. Between 1970 and 2010, a total of 15 recipients joined this group, whereas 35 recipients were taken off the list during the same period (OECD/DAC 2011, 225). On the one hand, these adjustments reflect political changes and assessments based on events such as the collapse of the Soviet Union and the subsequent need to include new countries as standalone recipients, and on new political conditions in the wake of such developments as the overturning of the apartheid system in South Africa. On the other hand, they reflect in the first instance the economic progress made by developing countries, as most of the countries removed from the list were those that had significantly increased their income (such as Qatar and Singapore).

The increasing convergence between the development features of the industrialised world (OECD countries) and those of formerly non-industrialised countries is seen clearly in the admittance of South Korea to the OECD's Development Assistance Committee in 2010. As such, this ongoing structural transformation is not limited to differentiating between "southern" countries, but rather involves the formation of new groups and coalitions of countries. Not only are the individual profiles of countries changing, but global discussion and negotiating processes are also evolving as a result (as can be seen in the establishment of the Group of 20 (G20), for instance), with new global constellations of actors and new perceptions of these groupings (*rise of the Global South*).

Developing countries continue to be classified primarily according to income groups;<sup>27</sup> this is also true of the OECD/DAC recipient list and similar country categories. This kind of classification system is fundamental to aid provision, as it begins by establishing a potential group of recipients based on need and/or the lack of resources (i.e. countries falling below a specific income threshold). This approach is coming under increasing pressure for two reasons. Firstly, a fundamental transformation is taking place in the structure of global prosperity to the benefit of the "South". The aid system uses a redistribution approach based on the assumption that the donor community possesses a large proportion of the world's economic power and is prepared to provide some of this power to developing countries in the form of aid. At the same time, this model assumes that developing countries are considerably lacking in resources and therefore require aid. Consequently, the aid system is characterised by a North-South dichotomy. However, the traditional classification structure is giving an increasingly distorted reflection of reality. At the worldwide level, there was a significant displacement of global prosperity during the 2000s, and this structural transformation looks set to continue (Spence 2011; OECD 2010). A number of countries in the "East" and the "South" have become the new centres of gravity for non-OECD economies. Developing countries such as China and Brazil have now become significant actors in the global economy. These changes in the world economy are tied in with a new constellation of global powers, with developing countries successively making claims to political power and being able to assert these claims.

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27 One fundamental problem discussed since the 1970s is the way that development is measured. It is generally recognised that absolute income per capita and growth in economic productivity are insufficient as indicators of development, though still relevant nonetheless.

The second reason that the traditional approach is struggling is that existing country classifications do not sufficiently reflect differentiation processes. These classifications face some particular challenges. On the one hand, the economic dynamism of developing countries means that the distinction between these countries, OECD countries and other more advanced countries is increasingly fading or blurred. It is no longer suitable to classify countries as either developed or developing (Harris / Moore / Schmitz 2009). On the other hand, there is the question of how to adapt and further develop country categories, given the difference in the nature of development between countries experiencing dynamic growth at one end of the spectrum, and nations that are stagnating or barely have any momentum at the other. As such, conventional income groups are only meaningful to a limited extent. New country typologies such as the four-speed world model (Spence 2011) and the multi-speed world approach used by the OECD Development Centre (OECD 2010, 2011b) have not yet progressed beyond a basic level of development and are only able to overcome methodical and content-related problems (growth basis etc.) to a limited degree.

Although the number of poor and stagnating countries is decreasing, a core group meeting the aid allocation criteria of need is set to remain for the foreseeable future. Statistical data for LDCs does not sufficiently map the changes that have taken place.<sup>28</sup> Some significant changes took place during the 2000s in the group of LDCs and LICs (low-income countries). This is especially true within the sub-Saharan Africa region, which is particularly important for the group of LDCs and LICs (Radelet 2010).

Across the board, stagnating and regressing countries are characterised by fragile situations. In a great many cases, a lack of state structures, poorly functioning or insufficiently legitimate governments, and related problems are the main reasons for countries failing to progress in their development. Fragile situations can include particularly complex cases of failed states, but also of vulnerable systems. In these cases, although state structures may exist, it may not be possible in certain regions of a country, for instance, for the state to enforce its monopoly on the legitimate use of force, or for state representatives to achieve a sufficient degree of legitimacy. Fragile states are marked by instability, insecurity, deficits in governance and limited implementation capacity. As a result, there is little prospect of success for longer-term aid approaches, the primary goals being to contribute to stability and to provide basic public services.

On the whole, the number of countries that can be prioritised as aid recipients is decreasing as a result of structural changes. The graduation of countries results in aid having a diminishing impact on recipients on the whole (measured in terms of its contribution to the economic power of a country, for instance) and developing countries categorising themselves as aid recipients less frequently. Added to this are the voluntary commitments of partners and international aid standards (target values for poor countries etc.), which tend at least to counteract the continued provision of support to more advanced countries.

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28 This data only shows three countries that have moved out of the LDC group in the past (UNCTAD 2011).

### 3.1.2 Characteristics of poverty

For the aid system, poverty reduction has been the principle underlying development-policy activities ever since basic needs and poverty became focal issues of aid in the 1970s and 1980s. Analyses by a number of experts – including development economists Jeffrey Sachs (2005) and Paul Collier (2008) – in the 2000s served to reinforce and further develop this paradigm. These analyses led development-policy actors to strive to focus aid activities to an even greater extent on poverty and on the MDGs by making allocation decisions that favoured poor countries (LDCs or LICs) and recipients in sub-Saharan Africa. The functional and regional characteristics of aid provision were seen as largely overlapping. At the same time, analyses were characterised by the assumption that poor countries (often characterised by fragility) largely coincided with poor population groups. Consequently, it was long believed that, by focusing its activities on poor countries, the aid system was focusing on poverty reduction.

Many of the assumptions and premises underlying the debate need to be re-evaluated in light of statistical evidence gathered from 2010 onwards.

*The problem of global poverty is becoming less significant over time:* When looked at over a longer period of time, poverty is decreasing, both in absolute (number of people in poverty) and in relative (proportion of population in poverty) terms. Some 1.29 billion people lived on less than US\$ 1.25 a day in 2008; this figure was as high as 1.94 billion in 1981. In proportional terms, 22 per cent of the population in developing countries lived below this threshold in 2008, whereas as many as 52 per cent did in 1981. The MDG relating to poverty (MDG 1) was already achieved in 2010. Progress in global poverty reduction is due in large part to falling levels of poverty in China alone.<sup>29</sup>

*Poverty is not a phenomenon limited to poor countries, but rather primarily a challenge for middle-income countries:* The analyses by Sumner (2010, 2012) have shown that there has been a significant change in the distribution of poor people in low-income and middle-income countries, in contrast to analyses by others such as Collier (2008) (*The Bottom Billion*). Most of the world's poor do not live in poor nations, but in middle-income countries (MICs). In 2007/2008, 72 per cent of poor people lived in MICs, whereas 20 years previously, just 7 per cent did (the corresponding figures for LICs are 28 per cent and 93 per cent, respectively). These changes are due in large part to statistical effects and categorisations, particularly to the progression of countries from LICs to MICs. Nonetheless, these changes are highly relevant to aid allocation decisions, for instance, given development-policy requirements (e.g. focusing aid on poor countries).

*Broadening the poverty agenda – development paradigms:* The debate about development-policy paradigms already went beyond a narrow definition of poverty and income poverty in the past. Nohlen and Nuscheler (1982), for instance, introduced a multidimensional system of targets (the “magic pentagon”). In development-policy practice, the concept of “human development” and the “human development index” (promoted by the Human Development Report, which has been issued by UNDP since 1990), in particular, provided a competing approach to the growth-fixated development

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29 cf. Chen and Ravallion (2012). For a critical evaluation of World Bank poverty analyses, see Loewe and Rippin (2012).

model that had dominated up until that time and that had been promoted particularly vigorously by the World Bank. There are two essential conceptual developments that are important here, not least against the backdrop of increasing incomes in many developing countries and the emergence of new middle classes. Firstly, the question of the environmental sustainability of development models (resource consumption, emissions etc.) is of fundamental importance, given the levels of economic progress (WBGU 2011). Any development paradigm that does not incorporate limitations based on natural environmental conditions is neglecting fundamental conditions. Secondly, inter-state aspects of distribution are becoming even more significant. Dynamic growth during the 2000s has led in many cases to growing inequality. This is highly significant at the political level due to the rising expectations of burgeoning middle classes. Questions of social cohesion are therefore key to development processes (OECD 2011b).

### 3.2 Changing the way global problems are addressed

Academic and political debates on the future of aid start with the assumption that aid actors are under pressure to adapt their operations to the highly dynamic environment in which they work. There are a wide range of factors determining the extent to which medium-term and long-term internal system reforms and approaches for overcoming the system are addressed. Several debates start with existing deficits in the way global challenges are being tackled. Overall, the procedure for tackling global challenges at the national, regional and global levels is fragmented and, in places, patchy. It is true that there are a large number of actors dealing with development-policy tasks. However, these actors are working within a fragmented and poorly coordinated system that can only be steered to a limited extent, even where transaction costs are high (see section 2). At the same time, many of the policies impacting developing countries are poorly coordinated and fail to fully implement insights from debates on development-policy coherence. When it comes to more effectively coordinating global policies and dealing with potentially conflicting objectives (e.g. environmental sustainability versus resource consumption resulting from economic growth processes), efforts so far have only scratched the surface.

Concepts for changing the way global problems are addressed can be divided broadly into two categories. The first kind of concept is outlined against a development-policy backdrop and includes a range of proposals that would fall under the heading “beyond aid”. These proposals seek to advance the aid system and embed it more firmly in the context of other development efforts. The second kind of concept deals as a whole with new patterns of international cooperation and primarily comprises global governance research (e.g. Messner / Nuscheler 2003). Discussions about global public goods have made a particular contribution to innovation in problem solving.

#### 3.2.1 Beyond aid

Debates about beyond-aid issues seek to move away from an aid-centric focus in cooperation with developing countries (Klingebiel 2013). This prevents most of these approaches working from the assumption that aid or aid-like approaches are needed. There are three essential strands to the discussion.

*Significance of the policies of partner countries:* In some cases, debates on aid are so narrow that they give a distorted view of political responsibilities for development progress or the lack thereof, underestimating the significance of the relevant structures of responsibility in partner countries and overestimating the role of external actors and, in particular, of donors. In positive cases, aid can facilitate and support development processes. Nonetheless, the decisive policies, reforms and changes that promote development stem primarily from the relevant actors in the partner countries themselves (Kharas / Makino / Jung 2011). A distorted perception of the role of national actors can have many different implications. For example, if governments are largely dependent on aid to finance their budgets and activities, this can contribute to deficits in their countries' political accountability structures. For instance, governments can order their activities in such a way as to make themselves primarily answerable to donors, and not – or insufficiently – accountable to their own populations (Klingebiel / Mahn 2011). Consequently, mobilising developing countries' own resources in the form of taxes is relevant not only with regard to the amount of finance available, but also in terms of governance structures. For this reason, the discussion about beyond-aid approaches examines the mobilisation of indigenous resources and the impact this has on governance.

*Aid as a catalyst:* Aid is provided with the assumption that it complements other development resources and that related investments would not be made or would be more limited without it. It is also assumed that aid should have the effect of mobilising other sources of finance. That is, aid should help to crowd in – rather than crowd out – other resources. It is virtually impossible to show either in general terms or in specific cases whether aid really does have such a catalytic effect. No recognised evidence has been provided so far to show that aid makes a general contribution to economic growth (i.e. that it generates additional resource flows). In fact, regression analyses have given rise to conflicting interpretations (Barder 2011). There is also uncertainty as to the ways in which individual investments and cooperation projects between public and private aid actors (public-private partnerships) crowd out resources, and reinforce or incentivise investment activity (Rogerson 2011).

*Coherence of donor policies and international regimes:* Development policy coherence is based on a recognition that, with regard to external actors, there are other policies besides aid that affect global development and the development of partner countries, and that, in many cases, these policies are actually more dominant than aid flows (e.g. a country's degree of integration into the global market, its foreign trade structure and the impact of foreign direct investment). In negative terms, policy coherence means the absence of incoherence, that is, of contradictions and the mutual obstruction of various policies (e.g. the potential negative effects of EU agricultural subsidies on developing countries). In positive terms, it refers to the way that policies work together to benefit development (such as when migrants transfer money back to their home countries) (Ashoff 2010b).<sup>30</sup> Questions of coherence are also of central importance at an international systems level (Kaul et al. 2003). Development policy can be affected just as much by an absence of regimes (e.g. in the area of international migration policy) as it can by existing international regimes (e.g. the international system of trade). Whether present or absent,

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30 The Commitment to Development Index, published regularly by the Center for Global Development, quantifies the efforts of donor countries, including those to increase coherence in development policy ([http://www.cgdev.org/section/initiatives/\\_active/cdi/](http://www.cgdev.org/section/initiatives/_active/cdi/)).

these regimes can lead either to incoherence or to greater coherence in development policy.

### 3.2.2 Global public goods

The concept of public goods comes from the field of economics and initially referred to the level of individual countries. Since the end of the 1990s, Inge Kaul and others have developed it further to produce approaches based on global public goods (GPGs) (Kaul et al. 2003; Kaul 2010, 2013; Severino / Ray 2009, 2010). Unlike private goods, public goods cannot simply be manipulated in such a way as to *exclude* others from using them or to *limit* their use to certain groups or individuals. Rather, public goods are available to everyone, for example, in the form of security (the police service, for instance) or public transport infrastructure (pavements, roads, traffic signs etc.). Many spheres of life and policies have become increasingly cross-border in nature over the last few decades, providing enormous momentum for regionalisation and, in particular, globalisation. Many public goods can either no longer be provided or can only be provided to a very limited extent at the national level. This is especially true of security (violence and crime phenomena) and the protection and conservation of the natural environment (e.g. clean water). There are a number of differences between various GPGs, for example, with regard to the issue of whether or not users can be excluded from using them (excludability / non-excludability) and whether a GPG can be used at the expense of other users (rivalry / non-rivalry). Many GPGs are not provided to the necessary extent or are liable to being overused, one reason being that free-riding can also count as a rational model for state action. International cooperation relationships face the twin challenge of a proliferation of actors and fragmented approaches to solving problems. This makes managing GPGs a key task, which is why Severino and Ray (2010) claim that new forms of collective action (“hypercollective action”) will be needed (e.g. multi-actor coalitions that would facilitate joint action beneficial to GPGs).

Providing GPGs requires cross-border action at the regional or global level, such as activities to mitigate or counteract the consequences of climate change. An international approach focused on GPGs is relevant to the aid system for two reasons. Firstly, demand for these kinds of policies and programmes in which several states have a collective interest is increasing. Creating and financing these goods is difficult at many different levels; states too are influenced by incentives to refrain from being involved in the provision of public goods (tragedy of the commons). Secondly, public goods such as these that are provided as part of aid programmes are not in the direct self-interest of the donors funding them. So far, the relevant services have been overwhelmingly geared towards assisting a specific country in its development process, without necessarily producing a global good. By contrast, the provision of GPGs is usually much more in the direct self-interest of the donors involved. It may even be the case that such activities are not an immediate priority for the country in which they are carried out. Consequently, it is helpful to distinguish between GPGs that are in the collective interest of all actors involved (e.g. initiatives for mitigating the effects of climate change) on the one hand and services that are primarily intended to benefit the development of the country in which they are delivered (such as initiatives for providing basic social services) on the other. At a fundamental level, making increased use of aid to fund “pure GPGs” carries the latent risk of frustrating the original purpose of promoting development at the national level.

### 3.2.3 Proliferation and fragmentation of actors

Since the beginning of the 2000s in particular, there has been an acceleration in the trend towards the simultaneous proliferation and fragmentation of actors providing aid and other forms of international cooperation (Severino / Ray 2010). There are several aspects to this trend.

In those *areas of international cooperation* not attributable or only attributable in part to aid, donors (their respective government ministries) are increasingly establishing other approaches to cooperation and proposing forms of cooperation that mainly serve the interests of a specific sector. These cooperation models may deal with a range of matters, including issues of international security, environmental and research policy. For example, the volume of climate finance equates to around two-thirds of the total volume of aid provided by OECD/DAC members, meaning it has reached almost the same dimension.<sup>31</sup>

The circle of *multilateral aid institutions* and *EU donors* has become even larger. There are 263 international institutions that offer multilateral aid, leading Reisen (2009) to describe it as a “non-system”. The high number of providers is due in part to vertical funds, an increasing number of which have been set up since the 1990s, some of them endowed with considerable sums of money. Vertical funds are earmarked for specific issues, meaning that they can respond relatively quickly and flexibly to new topics in a targeted manner (one example is the Global Fund, which is focused on reducing HIV/AIDS, tuberculosis and malaria). New EU donor countries include Poland and Lithuania, which provide small amounts of aid and contribute to the proliferation process.

As “new donors”, dynamic middle-income countries such as China, India, Brazil and South Africa are of great interest in political and academic debates, given the considerable momentum they generate and the political implications of their involvement. Their cooperation activities with other developing countries are described as South-South cooperation, already signalling an aspiration for horizontal cooperation relationships (rather than traditional vertical cooperation between North and South). What distinguishes these countries from traditional donors is that they have an explicitly different understanding of development (Bräutigam 2009). This is seen, for example, in the way they seek to refrain from getting involved in matters of political dialogue (political non-interference). These new donors usually highlight the mutual benefits of cooperation. For example, they emphasise their own economic interests to a greater extent and intentionally link aid with commercial instruments, whereas DAC donors seek to avoid mixing the interests of development policy with those of foreign trade, at least with regard to aid standards (the requirement to untie aid etc.). New donors often give prominence to infrastructure projects as part of their aid activities (transport infrastructure, energy projects, construction of public buildings etc.). Resource-rich countries such as Angola, Nigeria and Sudan are also important to new donors as cooperation partners. On the whole, new donors intentionally refrain from adopting the aid logic of the DAC donor group (Chaturvedi / Fues / Sidiropoulos 2012; Klingebiel 2013).

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31 The volume of climate finance is estimated to be at least US\$ 97 billion per annum (Buchner et al. 2011). According to the OECD, the ODA volume for 2011 stood at US\$ 133.5 billion.



*Arab donors* differ from new donors in two regards. Firstly, donors such as Saudi Arabia, Kuwait and the United Arab Emirates have been involved in development policy activities since the 1970s. Secondly, this aid has been provided primarily as an expression of political solidarity with other Arab countries, which means that this cooperation is comparatively specialised in nature (Zimmermann / Smith 2011, 730f.; Walz / Ramachandran 2011, 11ff.).

Finally, private foundations and *philanthropic donors* have been entering the aid arena in increasing numbers since the 1990s, financing their work through endowment funds. By the end of the 2000s, the work of these foundations had reached tangibly substantial levels, equating to around 6 to 8 per cent of aid provided by OECD/DAC donors. The Bill & Melinda Gates Foundation, currently the largest foundation, outstrips much smaller public donors such as Finland and Portugal (Lundsgaarde 2010).

### 3.3 Different types of development finance

Development finance is undergoing a process of transformation; its structure reflects the radical changes taking place in the aid system environment in terms of the extensive differentiation processes within and between development regions and the dynamics produced by external conditions. Four features can be identified with regard to development financing (Adugna et al. 2011; Walz / Ramachandran 2011; Zimmermann / Smith 2011).

Firstly, there has been a significant increase in private financial flows, particularly in the form of foreign direct investment, during the 1990s and 2000s. Viewed as a whole, these flows represent the most important external contribution to development finance. This applies first and foremost to more advanced countries (MICs), which are now only dependent to a small extent on aid. Poor countries (LICs / LDCs) are also receiving more private finance, although this has not yet outstripped public flows in terms of volume. For example, foreign direct investment in sub-Saharan Africa stood at US\$ 37 billion in 2011, with the volume of aid for the region coming to US\$ 48 billion in the same year.<sup>32</sup>

Secondly, there was also a significant increase in the volume of aid provided during the 2000s against the backdrop of development-policy commitments made by key OECD countries, among other things. However, these aid volumes decreased in real terms in 2011 and 2012.<sup>33</sup> Aid subsidies continue to be the most important source of development finance for poor countries (LICs).

Thirdly, payments transferred by migrants back to their home countries (officially recorded payments and informal figures) are making an increasingly significant contribution to development finance. The majority of these migrants do not work in OECD countries, but rather in nations (often neighbouring developing countries) that are

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32 Figures for foreign direct investment calculated based on OECD (2013, 50). ODA figures taken from: <http://www.oecd.org/dac/stats/Africa%20-%20Development%20Aid%20at%20a%20Glance%2013.pdf> (accessed 29 May 2013).

33 The volume of ODA in 2012 stood at US\$ 126 billion. For the data, please see: <http://www.oecd.org/dac/stats/aidtopoorcountrieslipsfurtherasgovernmentstightenbudgets.htm> (accessed 14 May 2013).

comparatively more prosperous than their own. Estimates put the volume of official payments received from abroad in 2010 by people living in developing countries at around US\$ 325 billion (ODI / DIE / ECDPM 2013, 171).

Fourthly, new donors are becoming increasingly important in terms of the available volume of development finance. It is not possible to obtain complete data on this group, and the criteria needed for comparison (e.g. to see whether development assistance fulfils the aid criteria of the DAC) with OECD statistics, for instance, is not available in many cases. At the same time, it can be seen that aid from these new donors increased significantly in the 2000s and that, in many cases, it is highly relevant and visible in individual partner countries and within specific sectors.<sup>34</sup>

### 3.4 Conclusions for debates about aid concepts and for development research

The changes that have taken place in the aid system environment during the two decades following the end of the East-West conflict represent a process of further profound structural change. The nature of these changes became clear early on (take the debates about emerging economies in the 1970s, for instance), but the changes themselves have become far more dynamic and wider in scope since 2000. This structural transformation has considerable implications for aid, and yet is far more wide-reaching, as it affects development research and key areas of international relationships. There are three relevant dimensions to be considered here.

*Aid in the context of international forms of cooperation with developing countries:* Aid is likely to become less significant and influential than it has been to date as the key instrument of cooperation with many developing countries. Policies are becoming increasingly interlinked, global challenges are growing, (former) developing countries are able to exert more influence and traditional industrialised nations are losing their global influence – all of which is fuelling the trend whereby aid is continuing to lose its status as the dominant form of international cooperation between the North and the South. In poor countries at least, aid will continue to play an important role in the medium term (10 to 20 years) as a transfer instrument. But even in these countries, other policies and their cooperation approaches (climate change mitigation initiatives etc.) will become increasingly significant, with the circle of cooperation actors continuing to increase (South-South cooperation, the role of private actors etc.). In highly dynamic countries able to move up the development ladder, options for using aid will presumably decrease tangibly. Development-policy approaches are likely to be integrated into other types of international cooperation relationships (GPG approaches etc.) in such cases.

When it comes to the remaining group of aid-recipient countries, it will still be necessary to remedy deficits in the aid system (fragmentation etc.) on the one hand (see section 2), and to transfer this cooperation approach in the longer term to a more

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34 It is estimated that the BRICS countries provided around US\$ 3.9 billion of aid, or the equivalent of 3 per cent of the aid volume provided by OECD/DAC countries, in 2009. However, the volume of this aid is increasing rapidly, and cooperation with individual countries (such as Ethiopia) and in areas of infrastructure is particularly significant in many cases (Adugna et al. 2011, 18–21).

comprehensive multilateral system (global governance) with other global public policy goals on the other. Consequently, aid approaches will continue to be rational in LICs initially, particularly in those that are stagnating or classified as fragile. Fundamental aid issues (aid effectiveness etc.) will remain relevant in these countries. As a result, explanatory gaps, such as those relating to cause and effect (the impact of aid on growth etc.), and related questions about allocation decisions (such as the decision to focus on “weak” or “dynamic” countries) will continue to be of relevance to development researchers, even if they now apply to a smaller core group of developing countries.

*Transforming a dichotomous and vertical cooperation approach into multiple forms of cooperation:* As an instrument of international cooperation, aid is based largely on a dichotomous and vertical structure of “donors” and “recipients”. This structure of cooperation is losing acceptance, at least in part, and is becoming less precise as a result of differentiation processes. This means that attempts being undertaken to integrate new donors into the regulation system of the old aid world are unlikely to be very effective. Looking at the cooperation relationships of China and India, it does not appear that the two countries will allow themselves to be integrated into the existing structures of the OECD/DAC group of donors and, consequently, into the traditional aid system. As far as the actors involved are concerned, the various forms of South-South cooperation do not belong under the aid-effectiveness regime that was established in the 2000s. For other global negotiation processes too, such as the one on a possible follow-up agreement to the Millennium Development Goals, it will be impossible – or only possible to a limited extent – to effectively define new global framework conditions unless all the relevant actors work together to shape, promote and support the processes. Set up relatively recently, the G20 is helping to create new global governance structures. However, it has not yet managed to ensure sufficient involvement of the relevant global actors (or fields of development policy). All in all, it looks likely that a wider range of cooperation instruments will be developed and that aid standards and rules will become less significant, with increased competition from other forms of international cooperation in the longer term.

*Inequality and cohesion within and between states as the focus for development research:* Development research work will need to focus to an even greater extent on differentiation processes, both those that have been concluded and those that are ongoing, in the future. These processes are leading to the break-up of previously dominant vertical structures (North and South) on the one hand, but are failing to fundamentally tackle economic and social divides at the international level and within individual countries on the other. Instead, structures are emerging that continue to be characterised by disparity and, at the same time, by open and versatile groups of countries. In this sense, dynamic development phenomena, such as the “East Asian Miracle”, are not exceptional one-off occurrences, but rather an essential feature of dynamic global development processes.

The dynamism that gave rise to an enormous economic convergence process in the 2000s, not least involving highly populated countries, entails considerable changes for the affected societies. For some population groups, it has brought with it an enormous increase in household incomes, social and public services, and consumerism. Consequently, differentiation processes within states are also highly significant with

regard, for example, to population groups within countries that remain in poverty, and the simultaneous income momentum generated by sectors of the population that benefit to a greater extent from growth processes, and therefore become part of the new middle classes in these countries.

It is only possible to gain a rough impression of the implications of global economic convergence processes (Rodrik 2011; Spence 2011), yet these processes encompass fundamental social and political issues (the impact of social and economic inequality and cohesion, the influence of growth processes on political participation etc.), as well as basic questions about the environmental sustainability of economic success (planetary boundaries). In the same way that the traditional OECD world used to provide a model for developing countries (e.g. the model of regional integration provided by the European Union), the dynamic economies of the MICs have in large part become role models for countries that have so far achieved little or no economic progress. Development-policy models of traditional donors could become even less attractive going forward as a longer-term consequence of the global financial crisis that has been ongoing since 2008 (Birdsall 2011).

Development research is implicitly based on the existence of a group of countries with common features (developing countries). This country-based typology will only be of limited usefulness in the future as a result of differentiation processes (Greig / Hulme / Turner 2007). Development research will need to focus less on issues relating to developing countries and more on open country typologies or the formation of new typologies. It should therefore shift its fundamental emphasis even further towards issues of inequality and cohesion within and between states.

## 4 Conclusion

Aid system reform takes some account of ongoing structural changes, for example, by creating new categories for “new donors” (take the Busan Partnership document, for instance). The aid system is responding to global structural changes as a whole by making adjustments. Nevertheless, given the fundamental changes taking place in the system environment, it is almost impossible to identify any overarching, new approaches to international cooperation that take into account all relevant policy areas. The upheaval in the system environment goes far beyond the sphere of aid operations. Even though the aid system is developing further, its ability to take account of and organise international cooperation relationships is limited. Aid is becoming less attractive and significant to partner countries, with many cooperation relationships no longer determined by aid logic (Klingebiel 2013).

The rationale and environment of the aid system have been constantly changing since it came into being in the 1950s and 1960s. Structural transformation, particularly that which took place in the 2000s, shows not only that aid is in an ongoing state of development and adaptation as a policy area, but that it is undergoing a fundamental shift of orientation in its key functions. However, it does not follow that these reforms and changes are automatically consistent; in fact, they are often contradictory.

On the one hand, the debate on aid effectiveness demonstrates a clear desire to further develop and professionalise the policy area with regard to its original key task of contributing to development processes in developing countries. On the other hand, at no point since it was set up has the aid system been free of tension and interests. Rather, it has actually been dominated in many cases by foreign-policy and economic expediency. The debate on aid effectiveness and the international negotiation processes it entails have led to a reform of the aid system through improved quality standards. Nevertheless, there are some donor practices that make it difficult for aid organisations to reform. The rationality of aid actors is primarily based on the proliferation, fragmentation and continuation of aid implementation structures. Additionally, the conditions laid out by partner countries for increasing effectiveness are not uniform and, in many cases, are not conducive to development (role of clientelistic and neo-patrimonial structures etc.).

At the same time, the Paris/Accra/Busan agenda provides only a piecemeal reflection of the realities of increasingly complex cooperation relationships. This is the result of a number of trends. Firstly, the number of classic aid partners is decreasing significantly. Consequently, planning, management and allocation processes within development policy, such as those forming part of poverty strategies, are set to become even less significant in the medium term. Secondly, there has been a marked increase in the number of actors engaged in cooperation relationships with developing countries. This has served to increase competition between actors and reduce the influence of classic donors. Thirdly, the aid instruments of traditional OECD donors are no longer the only definitive international standard. Donors such as China and India do not consider themselves to be bound in any way by classic standards set by bodies such as the OECD's Development Assistance Committee. Cooperation instruments are more diverse and are often more complex with regard to the role of public and private as well as concessional and non-concessional resources. Fourthly, all external actors are increasingly competing for their interests in different globally-focused policy areas. This is true of international environmental policy (climate finance), the reinvigoration of strategic interests in raw materials and security policy, for example. Finally, the structural impact of the financial crisis that began in 2008 is still by no means foreseeable. Nonetheless, it can be assumed that the crisis represents a caesura in many respects. It raises questions relating not only to direct medium-term resource levels for aid policy (impact of austerity measures etc.), but also to international patterns of cooperation (possible incentives for GPG approaches) and to the exemplary nature of development paths. It is to be expected that the global financial crisis and related crisis management activities will serve to reduce the acceptance and attractiveness of traditional donors and their development models.

All in all, this means that analysing and reflecting on the aid debate is about far more than simply examining technocratic development matters. Rather, it reflects the considerable need to redefine development research and to provide orientation for tackling questions of development theory that address significant changes in the system environment of the development regions.



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