



# Designing the development agency of the future

**Note of the conference on 27 & 28 April 2015, at the Overseas Development Institute, London**

## Framing the debate

### How is development changing?

Developing countries represent a growing share of the global economy and the number of low-income countries is falling. Nonetheless, a high share of extreme poverty persists in middle-income countries, mainly driven by the new entrants into the lower middle-income country status. There is also a growing concentration of extreme poverty in fragile states. In the future, the majority of the world's poor will live in either middle-income countries and/or fragile states. Furthermore, humanitarian crises are becoming more protracted. In 2014, more than 90% of countries with annual humanitarian appeals had had such appeals for three or more years, and 60% had it for more than eight years.

Furthermore, development finance is changing. There has been an explosion of non-ODA (official development assistance) finance, the composition of which varies across income-levels. In this context, development problems are increasingly becoming global problems, as embodied in the broad and complex sustainable development goals (SDGs) agenda.

### What does this mean for the future of development agencies?

In 2010, Alex Evans and David Steven remarked:

‘... International departments’ mode of operation is becoming more complex. Risks cut across issue and organisational silos. Few can be managed effectively without collaboration between complex networks of state and non-state actors’.

In 2012, Homi Kharas from Brookings and Andrew Rogerson from ODI pioneered a ‘stress-test’ of development agency business models. They essentially tested how well traditional aid agencies were reorienting their work to respond to emerging trends. They said: ‘Those agencies that are nimble and responsive can be expected

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to survive and thrive. Others, caught unaware of the changing aid landscape, or too rigid to adapt, are likely to face problems.’

Because development has become a much bigger and more complex task, policy conflicts continue to challenge countries’ commitment to development across a wide spectrum of policies on trade, finance, migration, climate change, security and technology. This is not to say that development must hold the trump card always and everywhere. There will always be trade-offs and compromises. However, there is a need for development to stand a fair chance of holding its ground in relevant decision-making fora. A development ministry/agency has an essential role collaborating with, and challenging, other government departments. It needs to be a vocal proponent of a global development perspective in national policy-making.

However, when they are unable to do this, development agencies may seek an alternative route – via greater collaboration with the multilateral agencies, which have the mandate to advocate global causes, and much less to lose politically in doing so. This may explain the increase in ODA channeled through the multilaterals.

The use of the multilateral aid system grew in real terms by 31% between 2007 and 2012. The increase was primarily driven by increased funding from bilateral providers to multilateral organisations, as earmarked resources for specific themes, sectors, regions, or countries (+79% in 2007 to 2012). Earmarking multilateral funds can ensure that multilaterals pursue policy objectives that are of interest to bilateral agencies, but perhaps domestically untenable as policy priorities. At the same time, however, such earmarked ODA allocations can also undermine the credibility of a sincere, non-partisan multilateral system and contribute to multilateral aid’s geographic and sectoral fragmentation.

The future involves a dramatic change in approach. In summary, there will be:

- fewer stable low-income countries and more fragile states and middle-income countries
- less aid and more beyond aid
- fewer single humanitarian interventions; more integration of relief and development
- less emphasis on poverty reduction, more on the provision of global public goods
- fewer single ministries, more whole-of-government approaches
- less bilateral and more multilateral aid.

To be effective in international development is to be able to ‘work the system’, not just in aid, but more generally. What does it take to work the system?

### **What features make an agency capable of addressing the new development agenda?**

An integrated model for policy and implementation is crucial for effectiveness, as is a mandate to work across government on the ‘beyond aid’ agenda (such as Sweden’s 2003 cross-government policy for global development), which allows core expertise to be leveraged from other ministries. Implementing this requires the future development agency to be represented at the highest level of government, and to have the right skills, delivery capabilities and partnerships.

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## Implications of a changing development landscape<sup>1</sup>

### How exposed are agencies to the changing landscape?

What are the implications of the changing development landscape for foreign aid programmes? A ‘traffic light’ measure of exposure to the changing nature of poverty emphasised the need to shift aid away from the traditional areas of social services towards global public goods.<sup>2</sup>

And yet, it was argued that the development agency of the future would not look radically different from current agencies, since the idea of change rests on three assumptions, which do not stand up to scrutiny. The first assumption is that aid is ineffective in fragile states. The evidence supporting this view has not withstood the last decade. The second assumption is that there is less demand for traditional development assistance from developing countries. As aid is free, or at least heavily subsidised, there will always be high demand for it. Finally, it is doubtful that aid agencies can change. The consensus around what is effective aid (i.e. the Paris Declaration) resulted in little change in practices.

### What is the demand for agency services?

According to an OECD study of partner country perspectives on what their needs might be in 5 to 10 years, partner countries think there will be a continued focus on growth, but that sectors such as agriculture and natural resource management, climate change adaptation, environmental management, meeting the needs of the poorest and reducing inequality will rise in importance. Furthermore, it is understood that although ODA from OECD Development Assistance Committee (DAC) donors and multilateral finance will remain important, partners also plan to diversify their sources of external finance and to increase their capacity to deal with newer donors. It is expected that DAC providers will move away from front-line service delivery programmes and toward public policy support and leveraging private flows.

DAC providers are considered to perform well on alignment, transparency, in-country presence, programme management skills and cooperation. Concerns revolve around their declining commitment to budget support; fragmented programmes; inadequate in-country decision-making authority; limited speed of delivery, responsiveness and flexibility; insufficient policy coherence; and a tendency to exit relationships on the basis of arbitrary criteria, often abruptly.

Conversely, non-DAC bilateral providers were recognised for their alignment with country strategies, speed, reliability, technical capacity and limited conditionality. However, they were considered to be less transparent, with limited in-country presence and restrictive procurement practices. Multilateral providers were very well perceived owing in particular to their alignment and depth of expertise.

A number of case studies from ODI’s [Age of Choice research project](#) found that developing countries welcome having access to more financial resources and more choice, and there is a clear demand for additional assistance in the form of grants, budget support and technical assistance. Since 2009, 14 sub-Saharan countries have accessed international financial markets and issued bonds, which have much less demanding terms and conditions, including the absence of conditionality.

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<sup>1</sup> The meeting was held under the Chatham House Rule to encourage openness and frank discussion, hence neither the identity nor the affiliation of the speakers or participants may be revealed.

<sup>2</sup> The index was first presented in Kharas and Rogerson (2012) [Horizon 2025: creative destruction in the aid industry](#). London: Overseas Development Institute.

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Recipient countries appreciate donors that take ownership, align with national priorities and emphasise speed of delivery. Aid coordination mechanisms are not considered a priority for developing countries or non-traditional providers. Philanthropic and private (not-for profit) flows are small and tend to operate through private-private assistance rather than engagement with governments.

The recent update of the Islamic Development Bank's (IDB) development agenda posed a number of dilemmas around what it can contribute in comparison to other donors, and how it can distinguish itself by focusing on economic cooperation – as opposed to poverty reduction – using Islamic financial instruments.

The IDB identified key challenges to the design of an organisation:

- The rapidly changing development agenda impedes medium-term strategic planning.
- An indicative strategy which changes in response to the changing context creates accountability issues.
- The private sector and community based organisations are increasingly encroaching on development agencies' sphere of influence, which raises questions pertaining to the value added by agencies. Funders also want clarification on how the agency has contributed and how it differs from other multilateral development banks.

### **Discussion:**

- Aid was originally intended to solve private sector failures. Yet, the prototype of what an organisation should look like is increasingly inspired by the private sector. The 'market space' is crowded and becoming narrower. Agencies can play a continuing role in convening, coordination and risk mitigating role to make up for the private sector's low appetite.
- There is a serious message around the way donors plan their exit.
- Some of the requirements listed by recipient countries, such as more aid to middle-income countries and more budget support, are among the most difficult to deliver politically. Is it the responsibility of development agencies to provide what recipient countries want?
- Aid is not sustainable if the views of taxpayers, the ultimate funders, are ignored. Linking foreign policy, trade and aid could be useful to maintaining domestic support, as it shows how aid can help create new markets abroad for domestic firms.
- The sustainable development agenda is a challenge that needs to be embraced. Business as usual cannot continue in the face of climate change, and the development challenge needs to be addressed collectively.

### **Agency perspectives**

#### **What have agencies done in response to the new agenda, why and how successfully? What will agencies need to do in the future?**

As a post-conflict country that recently reached upper middle-income status, Colombia is in a unique position to share some of its experiences with established development agencies in providing support to countries in need.

Before establishing the Colombian International Cooperation Agency three years ago, international cooperation was scattered across different institutions. The

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incumbent government recognised the importance of having a single institution and established the agency under the direction of the Presidency. It has its own budget and staff but remains close to the Presidency, which gives it authority within government. Colombia's cooperation focuses on countries in Central America and the Caribbean. As a contributor to South-South and triangular cooperation, they use the instruments available to them to share knowledge while also relying on the experience of more established donors as development agencies can benefit from learning from each other and collaborating on the development of joint instruments.

Over the course of the UK's Department for International Development's (DFID) 18-year existence, there have been many development successes along the way; and as an organisation, it has constantly been adapting to the changing development landscape. There have been four pieces of legislation, an increased budget to 0.7% of GNI, a change in the countries it works in, how it works, the instruments it uses, and the partners it deals with. Looking forward, DFID's top management is grappling with four key issues:

- *Getting the right people*: an effective agency needs staff that can work across development and diplomacy, that is comfortable engaging in the international system as well as in-country and across government, and that can work in networks.
- *Management and learning*: we should not underestimate how little we know, so it is crucial to have access to evidence and to ensure it is interpreted correctly in order to inform decisions and achieve results.
- *Being more commercial*: going beyond procurement to use contracts to build markets, widen the supply base, and challenge existing suppliers.
- *Being more digital*: making it easier to do business with DFID, providing information to people about what the agency does and understanding and appreciating new pitfalls that come with technology.

The focus of USAID's reform agenda over the past five years has been on extreme poverty, fragile states and resilience, which have been reflected in the agency's revised mission statement. Looking forward, they will think about what should be done in countries that are not low-income countries, but have persistent pockets of poverty. Another question is how to apply a useful extreme poverty framework when working in 80 to 100 countries around the world for a variety of different reasons.

In terms of organisational transformation, there has been a move toward becoming more nimble, adaptable and speedy; this has meant finding a balance between bringing down procurement time and reducing risk while working more with local actors and increasing the number of collaborative relationships. Bringing staff on board to carry forward the reform agenda is an enormous task. USAID hired approximately 1,800 new staff with a new skill mix and different career trajectories (i.e. often people not necessarily looking at a life-long career in USAID). Staff are now much more likely to be asked to work in fragile states around the world, which has a profound effect on who is interested and willing to serve.

USAID has also become more engaged in discussions on the policy agenda which has a substantial impact on workload, given its size relative to the Departments of State, Defence, and others. Looking forward, the development agenda is increasingly integrated with foreign policy and a lot will depend on what the next administration decides.

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The Australian aid system has changed drastically in a short period of time. AusAID became independent in 2011, and was integrated in the Department for Foreign Affairs and Trade in 2013. Furthermore, the geographic reality of Australia, a developed country surrounded by developing countries, is changing; Asian countries are growing and becoming MICs while the Pacific region remains fragile. This organisational change was accompanied by policy changes: the establishment of 20% of aid for trade; a decrease in social sector spending; a move away from service-oriented programmes; and a closer alignment with trade and foreign policy. These changes were also affected by successive aid budget cuts. It is too early to assess the success of these reforms and domestic support for aid remains low.

Canada and New Zealand have implemented similar reforms in order to increase efficiency and tap into a broader set of expertise to achieve government objectives. The main challenges to a successful organisational change will be joining up the culture and understanding the different sets of skills and capabilities. It will take some time to determine whether integration has led to a better ‘beyond aid’ agenda and whether it was necessary, but a mature whole-of-government approach to aid and a growing development voice in government bodes well.

Development agencies may be avoiding addressing the problems of the present and recent past by focussing on the future. For instance, some of the key principles of the Paris and Accra declarations, such as harmonisation, have been abandoned, and most donors admit they do not coordinate with one another, beyond sharing information. There are no incentives in place and a rethink is needed around reporting structures, for instance, and the way we evaluate how development agencies advance developing countries’ national strategies.

These changes require political will, a dimension that is not considered enough in discussions on development, although a growing number of governments are openly pursuing national interests through development cooperation policies – in part to gain political support from their domestic audiences.

In terms of the Canadian reform, the real motivation behind CIDA’s integration with the Department of Foreign Affairs, Trade and Development, is difficult to determine as the decision was made in secret meetings for which no minutes are available. There had been a sense that CIDA was underperforming, which made the change easier, but the real motivation may have been about getting a hand on the aid budget. The impression was that the government had been undermining CIDA for a number of years and then used the agency’s underperformance as a justification to abolish it.

### **Discussion:**

- In the Netherlands, the integration of development and trade occurred in a context of low public support, which is a political reality many donors face.
- The political dimension in development should not be understated. There is a major flaw between the indicators we use around development and ODA and what politicians want to see in terms of results and ambitions. The ambition should be to make cooperation a governmental issue, something all ministries have in their DNA. This is the transformation Italy is trying to achieve.
- The Center for Global Development’s Commitment to Development Index shows no evidence of an improvement over the past decade in

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policy coherence for development (PCD) across the seven dimensions it measures.

- In the face of rampant self-interest, there should be a continued effort to have a single global procurement policy. For instance, the Inter-American Development Bank's country system strategy sets a few criteria that countries must comply with. Untied procurement and establishing minimum of criteria are the way forward for development agencies of the future.
- Other government departments are often reluctant to make use of the aid budget when financial constraints limit their ability to intervene internationally, as they could be concerned that they will be required to return the favour. However, there is growing demand to understand what development agencies do, e.g. how electricity market reforms are led in developed countries.
- New donors, like Colombia, do not follow the traditional ODA path, but provide support through knowledge sharing.
- Public sector reform on international policy has been more difficult and less far reaching than on domestic policy.
- In driving change within an agency, it is essential to have a clear sense of direction from the political leadership, internal incentives that support change and structures that drive it. Once the purpose of the agency is defined in the overall strategy, the form should follow function.
- It remains an open question as to how an outward-facing development agency can influence the whole of government to work in the right direction. Is it realistic to expect a development agency to take this on, or should this be the responsibility of a broader ministry?

## Challenges of implementation

### **What are the obstacles to bridging policy divides? What are the solutions?**

The Center for Global Development's Commitment to Development Index shows a lack of progress on 'beyond aid' policies over the past 12 years. It is thus unsurprising that OECD DAC peer reviews have not found any successful mechanisms for driving policy coherence for development.

Organisational structures are moving away from having a separate development ministry. This, together with budget and staffing pressures, mean greater integration of staff, budgets and expertise with the rest of government is inevitable. The challenge is maintaining a strong voice for a beyond aid agenda within this. Concepts of Transnational Public Administration, such as boundary-spanning administrative systems and collaborative management, point ways forward for addressing this challenge. The current response to protracted humanitarian crises is not fit for purpose. The humanitarian system is being asked to take on long-term interventions it was never designed for. Fundamental change is needed to improve the link between humanitarian and development programming. Options for this include decentralising decision-making to the country level for better coordination with development programming, developing staff with skills across both the humanitarian and development fields, and promoting shared understanding of protracted crises.

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## ***Beyond aid***

There has been significant growth in the rhetoric around the importance of policy coherence for development during the past 20 years. However, as measured by the Commitment to Development Index, there has been essentially no overall improvement in non-aid policies since 2003. Within this, there have been improvements in some countries (e.g. the UK and US) and some policy areas (e.g. environment), but matched by declines in other countries (e.g. the Netherlands and Norway) and other policy areas (e.g. security and peace-keeping).

There are two perceptions that deter improvements in PCD, and changing these perceptions is also an opportunity for change. Firstly, there is no ‘global race’. Developed and developing countries are not competing against each other. This notion is economically illiterate and if we see the success of developing countries as a threat, the entire SDG agenda is in trouble. Secondly, policy coherence is ‘win-win’ not zero-sum. Unlike aid, which comes at a cost to donor country citizens, other policies would have net benefits. Reform is held back by small groups of incumbent beneficiaries and a coalition of reform needs to be mobilised. To improve analysis of the benefits and costs the ministry responsible for development should look at the impact of all policies on long-term global challenges, much as finance ministries look at spending policies across government.

Making progress on the SDGs will require ‘beyond aid’ policies. These policies are good at home and abroad, and agencies should seek influence across government and internationally to pursue them. However, form should follow function. Agencies should get agreement on their objectives – what they want to do and what their approach is – and then define what the agency should look like.

## ***Findings from DAC members***

Findings from OECD DAC peer reviews revealed a tendency towards a convergence with Ministries of Foreign Affairs, with a separate implementing agency for development cooperation. The UK and Germany are outliers. However, we should expect agencies of different sizes to be different. There has also been a convergence on the motivations behind development policy: it is a core element of a foreign policy based on the national interest. There is also an emerging link between international economic diplomacy and development policy.

No clear successes in mechanisms for driving policy coherence for development have been identified. The successes have tended to be where cooperation has emerged on a specific issue (e.g. with Ministries of Defence on fragile states and security) rather than through broader institutional arrangements for policy coherence for development. This agenda has now been broadened as the SDGs, and it is unclear whether development agencies will be able to drive the SDG agenda across government, or whether a more central institution will be required to drive the SDG agenda across both domestic and foreign agendas.

Public sector reforms, motivated by deficit reduction, are putting pressure on development agency staff. It is essential to find ways to sustainably mobilise expertise from across the whole of government. Large overseas offices are no longer affordable. It is thus a challenge to ensure county offices are meaningfully staffed to take decisions ensuring the alignment and harmonisation of aid. With all these trends pushing in the same direction, greater integration of staff, budgets and expertise is inevitable. The challenge is maintaining a strong development voice within this.

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### ***Pointers for public management reforms***

Public management theory provides insight for reforms to development agencies. New Public Management (NPM) rose to prominence in the 1970s with a focus on improved measurement of results, more managerial autonomy to reach them, and a split between purchasers and providers. Many of the reforms put forward for development agencies have a similar motivation to NPM reforms, although there has been less ambition in the public management reform agenda for agencies dealing with international rather than domestic policy. However, there is little evidence these reforms have achieved their objectives. In fact, they may have caused harm, as with the displacement of the traditional values of public service and the demoralisation and demotivation of staff.

If NPM does not provide a path forward, then this may be provided by Transnational Public Administration (TPA). With globalisation, agencies' spheres of responsibility have grown, yet their capacities have remained the same. To address this, boundary-spanning forms of administration are needed to work across organisational and national boundaries, engage citizens in public policy, and display collaborative management and polycentric accountability that move beyond upward accountability (which can disincentivise cross-boundary working).

### ***Addressing the challenges of protracted crises***

Protracted crises require long term use of humanitarian tools designed for short-term responses. They are simultaneously overstretched and punching above their weight. Although the need to link humanitarian and development programming is recognised rhetorically, it is yet to be addressed in reality. Silos must be broken down and labels should be abandoned. Although this is being done peripherally, fundamental change is needed.

Some signposts for reform include decentralising decisions-making to the country-level for better coordination with development programming, developing staff with skills across both humanitarian and development fields, and promoting a shared understanding of protracted crises.

### **Discussion:**

- Development cooperation needs to be seen as part of a foreign policy driven by self-interest. We need to be clear on what our development goals are, and be clear to our public about why these goals will benefit them. Donors should spend less time speaking to each other and more time communicating with their public.
- There is a need for strong political leadership, but leaders must also be clear on what they can and cannot influence.
- Smaller countries/donors need to find their unique role in the global system, and can draw on their history to do this. Ireland's focus on combatting hunger, for instance, helps sustain national support for development.
- A weak or defensive agency focussed on spending an increased aid budget, or defending it against cuts, will be unable to activate a beyond aid agenda.
- The development community has to align itself with voices of reform in the beyond aid areas needed for progress on the SDGs. The domestic, pro-aid constituency should find ways to support a beyond aid agenda.

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## Reform in action

### How are development agencies currently evolving? What lessons can we learn?

Italy's approach to its ongoing aid reform was to keep development cooperation in politics by retaining the policy aspects in the Ministry of Foreign Affairs, which can coordinate across government. The Ministry changed name and a junior minister position for development was created. The minister can sit in cabinet meetings when development issues are on the agenda. A separate, autonomous agency will be in charge of implementing Italian aid, with 20 in-country offices and a separate financial branch in Italy's largest public bank, following the model of KfW in Germany. With this new architecture, the government hopes to enhance policy coherence and to enhance Italy's voice in global politics.

Looking forward, international cooperation, aid and the national interest must become part of the same solution. For example, the waves of migrants on the Italian shores are a development issue as well as a national one. The Italian government has tried to make the development function strong enough to prevent subordination to foreign policy and short-term aims. The Italian vision goes beyond aid: it sees international cooperation as a global policy which requires political support, political vision and renewed institutional tools.

Agence Française de Développement (AFD) staff is carrying out a vision exercise on the future of the agency. The aim is to think ahead and envisage what the development paradigm will be in 2030. The exercise explores a series of possible scenarios and starts from the premise that no one knows what good development looks like. Development actors should think outside the box and question the obvious and the way things have been done for decades. This is particularly true in a world with growing uncertainty and interdependence and where we have very little control over events. This calls for more creative thinking and for tools that take uncertainty into account. This means moving away from predictive tools, towards adaptive ones.

The world has become more connected, complex and contested. For development agencies, the future will be around meeting the SDGs at home and abroad. New actors and areas of cooperation must be cultivated, such as working with the private sector, investing in scientific exchange and technology transfer.

Agencies need to adopt a whole of government approach, internally as well as at global level. The SDGs could help achieve that by bringing countries together rather than leaving them to defend their national agendas.

Various new donors have recently entered the development landscape from Europe and the Commonwealth of Independent States. Some of these countries, like Turkey and Russia, have been very important in regional and global affairs, although most of the donors still receive aid or have just transitioned to donor status. South-South Cooperation is not too prevalent in their rhetoric. These emerging donors come to see aid as part of foreign policy rather than an obligation. Those donors tend to have expertise that Western donors lack, such as knowledge of their immediate regions and their own development experience. But this is not their only distinction, donors like Turkey are paying a huge toll due to the Syrian crisis and they have proved capable of delivering when needed and where no one else could.

Challenges include finding staff with the right skills and expertise, having a workable institutional set-up, and having a clear strategy. These donors are moving

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toward a traditional 'Western' approach to development cooperation, with no understanding of what they can do differently.

The beyond aid discussion was encouraging in that it shows there is consensus that development will only be successful if we provide more than aid, something that was not obvious in the 1980s and 90s. Agencies need to ask how they can be more effective and having access to evidence does help. For the beyond aid agenda to be successful, there needs to be political leadership at the highest level.

Although the beyond aid agenda is relevant, traditional aid will continue to be important and for progress to be made, there needs to be a better understanding of the development process, which is not discussed often enough.

On the development agenda, we need to recognise that some countries will never catch up. Furthermore, we need to think further ahead to a global welfare state where development agencies redistribute wealth around the world.