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Work of the Chair in International Architecture of Development Finance

The effectiveness of development financing
A practitioner's perspective...

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Reminder

The objective of the Chair in International Architecture of Development Finance (IADF) is to "reflect independently about what the global development finance system should become in light of the current international situation and the lessons learned from the experience of the past 60 years." Therefore, the IADF has initiated a series of studies on some of the important themes concerning the prospects for adjusting the organization and functioning of the international institutional apparatus.

As part of the preparations for the June Summit on the theme of financing vulnerable countries, the IADF Chair has been led to adapt, accelerate and amplify its programme so as to make contributions on several themes that are crucial to the Summit' orientation.

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.../... A number of events have already been held dealing with aspects that appear to require clarification and interpretation, with the aim of informing the discussions and any decisions expected from the Summit. These events have been conducted based on documents prepared by the IADF Chair team, with the assistance of experts from outside Ferdi. These were the subject of discussions and recommendations which will be communicated to the teams responsible for preparing the Summit.

The following themes have already been discussed, along a logical line covering fundamental issues:

First, the question of the purpose or purposes of development financing was raised. *Why* are we involved in development financing? Then there was the question of for whom (i.e., who are or should be the recipients or beneficiaries of this funding?). Following these two conferences, several other meetings addressed specific themes that are essential elements of the problem, either in the form of constraints or new or inescapable challenges, often identified based on an assessment of the current situation, accumulated experience and lessons from the past. These include, in particular, the urgent and growing focus of attention on *climate change*, including access to climate/environment funds and the role of multilateral development banks in this area; *the fragmentation and diversification* of public development funding; public support for private funding to accelerate and develop its contribution, in particular by addressing the issue of derisking; and finally, the issue of *developing countries' indebtedness*, a key element of the prospect of future funding, but also a potential obstacle.

All of this provides a coherent line of strategic thinking. In each case, the aim has been to provide food for thought and analysis, as well as to suggest some possible responses to the challenges and obstacles raised. Broadly speaking, the aim is to re-establish why development should be financed, for whom, for what and under what conditions in a complicated geopolitical and institutional environment, with clear constraints such as indebtedness, the prospect, if not the obligation, of mobilising the private sector, and strong demands to meet new challenges, in particular those of climate change and the environment.

Most of the topics mentioned above have already been the subject of analytical work based on research and analysis from a variety of sources, including academia, think-tanks, public and private financial circles, and/or public and private development agencies. Many of these topics have already been addressed and literature is abundant. However, the IADF proposes to build on this work in order to provide new insights and relevant, concrete proposals aimed at helping to improve the performance of the entire system.

It is clear from all this work that the general context of the current system, in terms of its organisation, architecture, operating methods and criteria, procedures, not to mention its aims and objectives, on the part of the various players, public and private, domestic and international, falls far short of expectations.

And we believe that two additional elements deserve attention that may have been underestimated in the past despite a great deal of work, *conditionality* and *effectiveness*. The first makes it possible to specify the conditions under which, and how, funding bodies can or should make their contributions. This important subject will be dealt with in a separate document. The second theme, that of effectiveness, is the subject of this short paper. The aim is to find out to what extent the existing development financing system meets clearly expressed needs and the expectations of the main players in this system.

The theme of effectiveness

This theme of effectiveness has already been the subject of a great deal of work, and has almost become an unavoidable theme at major international conferences, generally under the heading of "aid effectiveness". This is a matter of constant concern primarily among backers and donors, who are legally required to demonstrate to their constituents the validity of their contributions, whether on a voluntary or for-profit basis. Hence the long-standing emphasis on the link between *impact* and *effectiveness.*

We can already ask ourselves whether we are talking about the effectiveness of aid, or the effectiveness of all development financing. It would seem that there is a lot of uncertainty and ambiguity on this subject, which makes it difficult to assess and interpret the results. Moreover, how can effectiveness be defined in terms of objectives? Improve the lot of beneficiaries? Yes, but the recipients of aid are not necessarily the same as the recipients of overall development financing. Is it simply a question of measuring the effect on GDP per capita? Access to drinking water? Effectiveness in building schools? But is it enough if girls can't be sent to school for fear of abduction or terrorist threats? And if we talk about effectiveness, who assesses it? Donors, funders, beneficiaries?

In practical terms, then, what are we talking about? Both the literature and the results of international conferences on the subject point to relevant criteria for assessing effectiveness. These are essentially criteria relating to development aid. It seemed useful, if not necessary, to ask a few fundamental questions in order to better inform the debate, and thus to propose answers better adapted to present realities and future challenges.

In addition, we cannot avoid asking the question: effectiveness as seen and interpreted by whom? To date, it appears that this issue is primarily the concern of those who contribute to funding: donors, philanthropic and charitable organisations, and even the private sector, each with their own interpretation. Overall, it is certainly aid effectiveness that continues to mobilize attention and energy. But what about the beneficiaries? What is their perception of the nature of effectiveness? In terms of what? And at the local level, who is affected? The government? Civil society? There are likely to be very different perceptions depending on who is asked these questions, and we can only conclude that at present there is limited information on this subject, apart from statements tinged with ideology and politics.

This document does not claim to provide a summary of all the analytical work that has been done on the subject of effectiveness, but it does propose a series of questions to which credible answers need to be found.

First point: Global financing for development vs. financing for development aid

On the whole, however, it appears that the issues of effectiveness addressed in international conferences and of concern within the organisations themselves have so far focused primarily on the effectiveness of development aid, rather than on overall financing. This was the case for the meetings in Paris (2005), Accra (2008),[1] Busan (2011)[2] and Addis-Abeba (2015),[3] which were all milestones on the road to improving effectiveness. In this context, the emphasis was placed on the usual dimensions, those defined at the Paris conference: ownership, alignment, harmonisation, results and mutual accountability. Subsequent conferences have

1. For a summary of the conclusions of the Paris and Accra conferences, see the OECD report: https://www.oecd.org/fr/cad/efficacite/34579826.pdf
2. Busan Conference: https://www.oecd.org/fr/cad/efficacite/49650184.pdf
3. Addis Ababa Conference: https://www.un.org/esa/ffd/ffd3/press-release/les-pays-parviennent-a-un-accord-historique-pour-financer-le-nouveau-programme-de-developpement-durable

added to this, notably in terms of focusing efforts, for example in Accra, on sectoral bases: technology, infrastructure, health, climate change, etc.; as well as an additional emphasis on criteria such as coherence, relevance, efficiency and above all coordination. The Busan conference focused on aid effectiveness, while the Addis Ababa conference dealt with the financing of sustainable development programmes; all perfectly legitimate subjects, but which ultimately deal mainly with donor and funding institutions, in the specific context of development aid.

International meetings held after these conferences attempted to continue the efforts, in particular by trying to integrate some of the "new" players more closely into the traditional official institutional system. China is a case in point. However, after an encouraging start, China has increasingly distanced itself from this "official" environment. We can then note a certain "exhaustion" of the whole process initiated since the Paris Declaration, to the point where we there are doubts about the prospect of arriving at a coherent global system.

If it is about *the effectiveness of overall financing for development* in countries, not just aid financing, then the main source of this financing, domestic resources, especially public, cannot be ignored. More broadly, addressing this question from a global perspective means taking into account the four sources of funding mentioned above. In this context, it is legitimate to ask how effectively these global resources are being used.

In reality, there are few references to this issue from a more global view of measuring effectiveness, taken as a whole according to the purposes of the funding. Each player or group of players is the subject of analyses and interpretations, but it is not clear where the coherence of the whole lies. In particular, there is a lack of information, analysis and reflection on the effectiveness of private sector development financing.

With regard to the financing of development aid, the question arises again of the need to distinguish between the sources of this financing, and to concern ourselves with the effectiveness of the system of allocation, distribution and distribution between these sources and even within these sources. By way of example, we might ask what guideline, if any, dictates the distribution between several sources of aid funding, namely: (a) multilateral sources, themselves divided between United Nations-type and Bretton Woods-type sources; (b) regional sources such as those of the European Union; and (c) bilateral sources. By way of illustration, consider the French government (Ministry of Finance and/or Ministry of Foreign Affairs); what criteria govern the distribution of resources to these various destinations? And once again, the question arises of how to assess the effectiveness of these different sources of funding?

Finally, when it comes to the distribution of development aid funding, we need to consider the effectiveness of the systems for allocating these resources. This is a key issue that Ferdi has been working hard on for a long time, in particular by linking the issue of resource allocation to the vulnerability criteria of recipient countries. It is clear that this general problem has not yet found a globally acceptable solution within the official development aid apparatus. Notable progress has been made in some institutions (e.g., the African Development Bank), but less so in others.

Basically, the traditional criterion for allocating aid resources has been country performance. There are several reasons why this criterion is no longer acceptable. First, because the criteria used (e.g., the World Bank's Country Policy and Institutional Assessment (CPIA)) are not above suspicion in terms of bias or subjectivity. And second, this principle tends to ignore the fact that those who should receive the most attention, in terms of human and financial resources, are precisely the most fragile and vulnerable countries. It's a bit like squaring the circle, but it's also a question of effectiveness. We recognise that commendable efforts have been made by the official apparatus, notably the World Bank, to better target aid to the most fragile countries, particularly in Africa.

Second point: what levels of effectiveness?

The concept of effectiveness can be applied at different levels. First and foremost in terms of the impact of development financing interventions on the beneficiaries targeted by these interventions. This is obviously the ultimate goal of the whole exercise, namely how effective is the exercise in reducing the poverty of the ultimate beneficiaries, within the precise framework of a generally recognised objective? Or would the objective be to measure the impact beyond this specific objective? The aim here is to measure the impact according to objective criteria. A great deal of effort is being made in this area, particularly in impact assessment and measurement methodologies, such as those developed and recommended by Esther Duflo, winner of the Nobel Prize in Economics.

At the other extreme, however, effectiveness can and must be assessed at the level of funding sources, as mentioned above. This has been, and continues to be, the subject of numerous studies on the coherence and coordination of funding mechanisms, including those relating to the concept of development aid.

The middle ground?

But there is also reason to be concerned about the entire middle ground between these two levels (i.e., between the contributors and the users and beneficiaries). This includes, on the one hand, the instruments used to ensure the transfer and use of funds; and on the other hand, *the operating methods and means* of the agents and institutions responsible for managing these instruments. On the one hand, there are many partners, both public and private. On the other, there are many instruments and tools of an extremely diverse nature.

As far as the instruments are concerned, we need to distinguish between very different modes of intervention and very different aims.

First, there are *projects*, which by definition are time-limited, in a context of finite interventions, temporary mobilisation of players, limited investment and operating funding, etc. The project may be part of, or totally independent of, current funding for existing public or private sector programmes. The question here is how to assess the effectiveness of this type of funding. The comparative advantages are well known: the specific nature of the beneficiaries, the targeting of interventions, the control over expenditures and the resources made available, the time dimension, etc. The disadvantages are also well known: the limited duration, the challenge of ensuring the sustainability of interventions and their financing, the risk of disruption or even interruption in management and governance, the risk of frustration on the part of local players when interventions are not followed up, questions about the sustainability of interventions over time, etc.

This issue is particularly relevant to funding from the private not-for-profit sector. Many projects financed and supported by NGOs, foundations and others using concessional resources (donations and grants) experience adequate development, often remarkable in terms of impact, during the investment and development period. But when the project is over, local resources, both human and financial, do not take sufficient responsibility, to the point where the whole intervention is put at risk and can lead to collapse, often resulting in disappointment and recrimination locally. Can we talk about effectiveness in such a context?

Then there is the question of programme funding, which is already based on a broader concept of investment and operation. Unlike the project, the programme is intended to be broader, more inclusive and more sustainable, requiring better institutionalisation, particularly in the areas of programming, monitoring and evaluation, and legitimacy in terms of defining investment and operating expenditure requirements.

This brings us to *policy-based lending*, sometimes called structural, sectoral or macroeconomic adjustment financing, followed by budget financing. In these cases, it is a question of basing interventions and financing on fully reliable frameworks of competent institutional structures that are capable of defining policies and strategies, and formalising short-, medium- and long-term action plans based on them, with the appropriate intervention instruments in terms of investment and operating financing, based on technical and technological proposals, and with the appropriate means in terms of human resources and governance, etc.

Lastly, we cannot ignore other types of funding, in the form of donations or those granted in return for payment, such as t*echnical assistance and governance support*, whether provided by NGOs, foundations, academic circles or others.

In each of these cases, one can legitimately question the effectiveness of the selected instrument. What criteria should be used to measure effectiveness, how should the objective be defined, and what measurement tools should be used? And ultimately, how can we measure the impact on beneficiaries, defined according to what criteria, whether in terms of target populations, results in terms of policy changes or precise references in quantitative or qualitative terms (e.g., the passage of a law or the formalisation of an implementing decree)?

In other words, we might wonder whether we have sufficiently clarified the entire field of intervention instruments to measure their effectiveness.

Third point: what types of players? What types of service?

We also need to specify and characterise the types of players involved in this whole transfer mechanism. There are four main categories: (a) local government apparatus, including public and semi-public institutions; (b) international public institutions, such as development banks and/or technical assistance institutions, such as specialised United Nations organisations; (c) private for profit institutions, such as companies, with their interventions either in the form of foreign direct investment (FDI) or in the form of commercial financing; and (d) non-profit institutions, foundations, NGOs, etc.

It is also important to consider where effectiveness lies in the set of operational mechanisms that the different modes of development finance are embedded in, namely: (a) strategies; (b) policies; (c) operations; (d) institutions; and (e) governance. The questions in this area remain the same: (a) which criteria; (b) which instruments; (c) which methodology.

Finally, in assessing the effectiveness of funding by external players and partners, we cannot fail to mention the inescapable theme of the *behaviour and operation of the institutions concerned*, whether public or private.

It is common knowledge that the major development institutions, starting with those of the United Nations, but also the development banks (World Bank, etc.), are subject to well-founded and constantly renewed criticism for their bureaucratic red tape, inertia, complexity, shortcomings and sometimes their incompetence in certain areas. All of this threatens to reduce their effectiveness.

One illustration of this problem is obviously the time lag and the amount of resources transferred between *commitments* on the one hand and *disbursements* on the other. How many millions of dollars are tied up and unused simply because of blockages or delays due to bureaucratic and administrative difficulties?

As long as 40 years ago, Robert McNamara, President of the World Bank at the time, was quite irritated to learn that a loan proposal for a multi-million dollar project was being delayed because the Bank's duty lawyer was on leave, with no possible replacement.

Similarly, *internal procedures* designed to guide, supervise and control the mechanisms for awarding contracts, inviting tenders and recruiting expertise are often the cause of complications leading to delays and administrative costs. The application of "safeguards", or precautionary measures, however necessary and legitimate they may be, particularly in the social and environmental fields, is often a source of delays and complications in the examination and processing of investment applications.

Nor can we ignore the difficulties resulting from *periodic, if not permanent, internal changes* in the administrative structures of the institutions. Thus, the World Bank has gone through multiple reorganisations throughout its history. In each case, the justifications for undertaking such measures can be and are valid. It is often due to the arrival of a new President who, under various influences, thinks that the structures and people in charge need to be changed to revitalise the institution, even before having grasped its nature and the specific ways in which it operates. Yet the consequence of these essentially bureaucratic measures is to create a great deal of uncertainty, at least temporarily, to call into question situations that did not necessarily need to be changed ("if it ain't broke, don't fix it..."), to substitute bureaucratic mechanics for what should be managerial decisions (i.e., in the field of human resources management), and ultimately to contribute to a considerable increase in internal transaction costs.

In assessing how institutions function, we cannot overlook the *importance of internal cultures*, systems of governance, influences if not political pressures or interference, and in general what are known as "idiosyncrasies", characteristics specific to the institution, all forms of bias and subjectivity that have an impact on efficiency. One example of this is the French influence in the early days of the European Commission, particularly in the directorate responsible for development (DG8 at the time). This influence was called into question with the arrival of the Iberian countries, with a new Latin tropism towards the Mediterranean and Latin America; then a new Germanic tropism with the opening towards the countries of Central Europe. The effectiveness of the entire system cannot remain unaffected in such a context.

The governance cultures of the major institutions are not without reproach in this respect. To caricature somewhat, the United Nations is run by diplomats, often remarkable, but sometimes focused on grand principles and grand strategies that lack operational realism. Development finance institutions are, on the other hand, the meeting place for ministers of finance, planning or budget, whose concerns tend to be how to limit spending and how to mobilise additional resources in the short term. Everywhere, everyone expresses the pious wish for better cooperation between everyone, but often with the caveat of "I agree to coordinate you, but I don't want to be coordinated by you…".

Unfortunately, there are other sources of confusion and inefficiency in the behaviour of inter-institutional governance (i.e., regarding *the relations between financing institutions*). In many cases, shareholder representatives on the boards of directors are the same, or come from the same national administrations (e.g., between the World Bank and the regional development banks). And yet, it is not uncommon to observe divergent, if not contradictory, attitudes or positions on issues where we might expect common and coherent positions. This is not a source of great effectiveness...

The same could be said of the lack of cooperation, if not antagonism, that can exist between institutions. One can differentiate between the sometimes healthy and necessary competition between development institutions, and the confusion that can result from poorly managed or unmanaged rivalry. For example, in some more advanced countries, the national authorities are very skilful at pitting foreign institutions against each other, or asking them to cooperate on one issue or another; or conversely, to operate entirely separately on certain issues. For example, at one time the Mexican government gave the Inter-American Bank (IDB) responsibility for urban water in Mexico City and the World Bank responsibility for urban and rural water in the rest of the country. On the other hand, it asked the two institutions to work together on issues such as pension and social security reform. We can think of assistance mechanisms for less well-equipped countries to develop similar systems that are more effective.

Moreover, within the institutions themselves, *squabbles* are commonplace. In the distant past, at the World Bank, the entire agricultural sector was under the influence and control of the British, who had been part of the colonial system, and had exceptional skills based on long experience in the field; irrigation was the preserve of the Israelis and the Americans; while there was a time when the urban water sector was the preserve of the French, who had come from Lyonnaise des Eaux and Générale des Eaux, etc. These concrete examples are not presented as a criticism, since in many cases the results in operational terms turned out to be quite positive. But they serve to illustrate the fact that the effectiveness of the external contribution can depend on very different criteria, which are not always correctly identified.

Finally, we cannot ignore one of the most widespread problems and source of great inefficiency, namely the mechanisms for awarding contracts for goods and services financed by institutions outside the countries, the *procurement system*. This area is one of the greatest sources of corruption, despite constant efforts and reminders to improve coherence between institutions. Procedures, practices and decision-making are still too often sources of confusion and misappropriation.

These observations, drawn from specific cases in Washington, New York or Brussels, could obviously find their equivalents in other geographies or other institutional frameworks.

In terms of behaviour, we need to look at the *skills and behaviour of individuals* within institutions, both public and private. We can only note the discrepancy between the behaviour of the "elites" of official development agencies – but also in civil organizations in the "North", including the private sector – largely reflecting the views and practices of advanced Western countries (see the historical weight of American universities in the theoretical formulations of analyses and strategies), and the realities of local development. In this regard, we can cite the excellent work of the sociologist Jean-Pierre Olivier de Sardan ("La Revanche des Contextes" - Ed. Karthala 2021), which highlights the discrepancy between ideas on the one hand and achievements on the other, resulting from insufficient knowledge and consideration of local contexts that are "ignored or underestimated". "It is in the confrontation with local contexts that the fate of any intervention is decided".

New players?

A new element, adding to the complexity of the whole issue, is adding a little more challenge and perhaps confusion to this situation, and can only invite further reflection. This is, of course, the issue of new entrants, or rather the activity of financial partners who are not part of the traditional institutional ecosystem, in both the public and private sectors. This is primarily China, but also many others such as Russia, India, Turkey, Brazil, etc.

The question in this case is to know how effective these interventions are, but above all, what are the risks of questioning the effectiveness of the entire current system as described above, due to the rise of these new players.

This is not the subject of this paper. But the rapid developments in the context of these new players inevitably have implications for the prospects, operating methods and very objectives of the traditional institutional system.

How effective is the private sector?

As a counterpart to the assessment of the effectiveness of the public sector in development finance - and development aid - presented above, the question of assessing the effectiveness of the private sector in this funding is another subject, which is difficult to grasp. Here again, several distinctions need to be made, depending on the sources of the funding (corporate, bank, investment funds, foundations, etc.); the destination of the funding (FDI, trade, operations or speculative); and the form of the funding (loans, grants, guarantees, etc.). It is clear from the outset that, with the exception of a significant proportion of philanthropy, solidarity, social and humanitarian aid, all of which is subject to concessional, non-profit funding from NGOs, foundations, etc., all private sector funding is not intended to finance aid, but to finance development in general. And yet, in many cases, the private sector's contribution to a country's development can be far superior and more effective than many of the interventions known as development aid. How can this effectiveness be measured comparatively?

It is therefore legitimate and necessary to question the effectiveness of each of these modes and means of funding, particularly for comparative purposes. But the answers are not obvious. The literature has dealt with one or other aspect, for example the situation of FDI, which is well documented (see the excellent summary article by Édouard Mien of Ferdi, May 2023). But we don't know of many exercises that address the whole question.

We can, however, rightly confirm a few general lessons, namely FDI's contribution to economic growth, increased productivity and poverty reduction. The contribution of SME development to job creation can be affirmed. Many other benefits confirm the potential effectiveness of private sector financing.

However, it would be extremely useful to take a comprehensive look at the whole issue, by comparing the specific features of the different types of contributions made by the main players in the private sector. This would give a better appreciation of the areas in which promotional actions, changes in strategies and policies, operating methods and regulatory mechanisms could be implemented.

For example, the experiences accumulated by certain impact investment funds over the past 20 years in favour of SME development in Africa are sources of considerable lessons, unfortunately far from being exploited as they could be. This is particularly true of the I&P group (Investisseurs et Partenaires), a true pioneer in the field of financing and supporting small businesses in Africa.

Fourth point: mechanisms for transferring external funding

The question of where external public funding goes deserves particular attention. The question is whether the funds granted are part of the budgetary process or not in the recipient countries. We are well aware of situations in which this funding is completely separate from the budgetary process, primarily for investments, but also frequently for operating expenditures. This is often the case with the use of trust funds, for which special financial management is required. This subject is closely related to the issue of effectiveness.

The case of Mexico is useful in this respect. In this country, all foreign public funding must go through the government's budgetary mechanism. As a result, external contributions are fully incorporated into the country's budget, both for investment and operating costs.

This means that, at the end-user level, for example the Ministry of Agriculture or the Ministry of Health, no difference can be made between funds from national sources (taxes, customs, etc.) and those from foreign sources. Everything is merged into a single budget. In short, there is no perceived additionality of funding at the level of the application of the funds. This practice corresponds, of course, to an orthodox view of budget management (i.e., a single pool of resources, which are then allocated according to a sectoral distribution process).

This assumes that external contributors have full confidence in the local authorities' ability to manage the budget administratively. Consequently, in practice, the funds allocated to a project by the World Bank cannot be identified by the local development players.

This is an interesting practice in terms of efficiency, but it raises some important questions. If the user (the Ministry of Agriculture) does not see any concrete additionality in its resources due to the presence of the Bank, what incentive does it have to agree to collaborate with the Bank? Apparently all it gets out of it is complications, in terms of various controls, multiple reporting requirements, bureaucratic obligations, application of safeguard procedures, etc.; "all pain and no gain...". Part of the answer may lie in the presumption that the contribution of the Bank's resources to the national budget will increase the budget allocation to its department. In any case, this contribution should ensure the reality and permanence of this allocation, and protect it against arbitrary variations in the application of the budget. In addition, it is to be hoped that there are some benefits to be gained from the Bank's participation in terms of intellectual contribution, the fruits of the Bank's experience in other countries, technical and managerial support, etc.

Certainly, many countries at an advanced stage of budget management are following the same strategy and practices, in line with the IMF's cherished principles of coherence and unity in resource mobilisation. The effectiveness of such a system can certainly be confirmed.

On the other hand, where such a practice is not in place, the risks and dangers are quickly apparent. On the one hand, different budgetary mechanisms than those of the government – is often the requirement of financiers who want to maintain close control over the use of their resources. On the other hand, we can imagine the risks of a multiplication of mechanisms, the creation of parallel systems, depending on the various external players, with as a corollary the risks of different, sometimes contradictory procedures. The effectiveness of such systems is questionable.

Unfortunately, it is not always possible to consider the methodology of non-additionality because, as indicated above, this presupposes competence and reliability in the budget management system which are not always available. But in the interests of efficiency, this is undoubtedly a direction that should be pursued, in particular by accelerating efforts, precisely to improve the quality and performance of budgetary management.

In terms of efficiency, we should bear in mind the risks and dangers associated with all mechanisms that ignore, bypass or undermine national budgetary mechanisms.

Fifth point: Innovation, risk-taking? An effectiveness criterion?

It is important to remember who ultimately bears the risk of innovation. The author of these lines recalls a meeting with the Minister of Agriculture of an African country several years ago, during which the Bank announced its decision to terminate an ongoing project on the grounds of non-performance. The Minister, while in no way disputing the fact that the project had failed, pointed out that the same project had been heavily committed to at the Bank's instigation a few years earlier. And his perfectly justified comment was unambiguous: "The World Bank strongly encouraged us to undertake this project, and now you're telling me that it has to be stopped; "But we borrowed from the Bank for this project, and now I have to pay you back...". Moral: be careful not to promote initiatives whose results have not already been demonstrated; in other words, don't make the borrowing country bear the cost of the risk attached to the innovation.

Once again, this puts a damper on the assessment of aid effectiveness. Is this dimension always taken into account? We can of course observe that the form of financing has a decisive influence on this risk assessment; namely a project financed by non-repayable resources (donations, grants) will be preferable in terms of risk-taking to financing in the form of a loan.

The assessment

It should be noted that the points and elements mentioned above are based mainly on the experience accumulated with international public institutions. The question can legitimately be asked as to how these same themes can be applied to bilateral and European public institutions, but also in the context of private organisations, be they NGOs, large or small, private companies that are sources of funding for foreign direct investment, foundations, etc.

If we place all of the above-mentioned questions, whose guiding principle is to identify, characterise, measure and evaluate the degree of effectiveness of the sources, distribution, modes and means of development financing, in the conceptual framework presented at the beginning of this document (i.e., the purposes and destinations of this financing), differentiated between global financing and financing of development aid, private and public, domestic and foreign, we can appreciate the complexity of the proposed exercise. In each of these cases, what criteria should be applied, and what methods and instruments should be used to apply these criteria? Following this inventory and this somewhat worrying observation, can we not think that all these elements have a real impact on the effectiveness of funding?

At this point, it is interesting to note that many of the players are making commendable efforts in this great game. Virtually all of the themes mentioned above have been analysed and these analyses have often led to recommendations. This is the case when we look at the recommendations at the conclusion of the major conferences mentioned above (Paris, Accra, Busan, etc.). The recommendations are altogether relevant, are generally supported, lead to monitoring and evaluation mechanisms, etc. However, it must be noted that many of the problems mentioned persist, and in some cases have worsened. For example, this is the case with the cost of internal transactions within the World Bank, following the reorganisation in 1996. Many of the measures taken, with the best intentions in the world, have been taken in a compartmentalised way, to meet a specific need, but without a global vision that could take the effects and cross-fertilisation of lessons into account. And it is clear that there is a serious lack of means of assessing the effectiveness of the whole set of measures.

There is another point to be made here, which is undoubtedly a key element in this assessment of the effectiveness of funding. This is the *absorption capacity* of the countries receiving the funding. And this applies to both public and private funding. It is a question of the local intellectual, physical, administrative and financial capacity to deal with all the issues relating to the transfer of resources. The obstacles and risks associated with this issue are well known, and undoubtedly constitute serious impediments to the effectiveness of the system as a whole.

The multiplicity of players of all kinds, each with its own specific priorities, each demanding access to local leaders, each with its return on investment obligations to its donors, each with its own concerns for visibility and recognition, each with its own operating methods, principles, requirements for monitoring and evaluation, specific reporting measures, etc. All this poses a series of problems for local governance. How many visitors of all kinds should the finance minister of an African country receive, because each delegation must see the minister? What a call for inefficiency when faced with such a situation; excessive constraints on managers' schedules, confusion in the often contradictory messages from representatives, bureaucratic follow-up obligations to satisfy requirements in public and private organisations' distant headquarters, etc.

This problem of dispersed efforts and participants faced with a very limited absorption capacity on the part of local governments (this is as true for private institutions as it is for public funding) points to the need for considerable institutional strengthening. This is a recurring theme that receives a great deal of attention from donors. Of course there is talk about it. Central government departments are building capacity and consultants and advisers are being sent in to boost capacity, but it has to be said that progress is slow and the problem persists, with a few exceptions.

In this respect, it is worth noting and taking as an example the major emerging countries, or countries that already have a high level of institutional capacity and an established political will, but are reluctant to accept any external pressure that is deemed excessive. This is the case in Mexico and other Latin American countries, where the government's attitude is clear and unambiguous: "I am in charge; I only want to see one head…" External partners (World Bank, Inter-American Bank) are obliged to align themselves with the structures and strategies defined by the government. It's quite effective… the question is how to really build capacity in the less well-endowed countries to ensure that they operate effectively at this level.

What question – what answers?

On reading these observations, one will no doubt have the feeling of a veritable indictment of the supposed effectiveness of the entire development finance system. And they won't be entirely wrong.

The question seems to be how to link the often remarkably pertinent analyses, observations and recommendations concerning the aims, objectives, solicitation and mobilisation of increasingly abundant resources, with such a wide range of issues concerning the players, instruments, resources and institutions that enable these funds to be channelled and used.

It is to be feared that the major principles evoked at the conferences, the detailed analyses, the calls to action and the human and financial commitments made, do not sufficiently correspond to the concrete realities, sometimes tinged with human weaknesses, which cast doubt on the effectiveness of the whole.

To go so far as to say or suggest that the whole system, its aims and the resources deployed are totally ineffective and should be completely reconsidered in light of these observations, is a step that should not be taken. Of course, we cannot deny the immense progress made in recent years, nor can we question the overall impact of development aid, notwithstanding the injunctions and theses of Dambisa Moyo and Bill Easterly.

We could take up each of the elements listed above and first consider the nature of the most appropriate criteria and instruments for measuring, monitoring and evaluating each of them, in light of what already exists. And secondly, how to ensure the whole system is coherent. This document does not pretend to give precise answers to all these questions, but simply aims to point out what seems to be a necessity if we really want to have an assessment of the effectiveness of the system as a whole.

At this stage, however, we can provide some food for thought that can guide the future direction, from both a conceptual and operational point of view. A distinction needs to be made here between public and private resources. Let's start with public resources.

A basic premise: an example of a possible measure

Whatever their origins, and however they are transferred, whether in the form of global development funding or development aid, public resources from outside the country can only be applied in one of two ways. Either they pass through the country's own budgetary mechanism, or they are applied independently of the local system for managing public resources, as indicated above.

In the first case, where resources are subject to the local public management system, the question of efficiency essentially concerns the measurement of the efficiency of this system. The preferred instrument in this case is *the public expenditure review*. It is a widely used instrument, particularly in the context of operations by the International Monetary Fund, the World Bank, regional development banks, etc. The effectiveness of how external resources are applied will therefore largely depend on the effectiveness of the local public resource management system. This applies to both capital and operating expenditures.

It is therefore essential to carry out a complete and reliable assessment of the operations, operating methods, monitoring, supervision and evaluation mechanisms of the entire government apparatus in this area. The experience of many concrete cases indicates that there are some reasons to doubt the effectiveness of the use of public expenditure. By way of illustration, the Deputy Minister of Mexico's Ministry of Finance in charge of the budget a few years ago, stated unequivocally: "public spending does not go entirely where it is intended, and only partially reaches the people it should serve." It's not hard to imagine that the same observation applies to many other countries.

In addition, other local sources of information make it possible to define fairly precisely the populations, regions and sectors that should constitute the priorities where public resources should be applied. For example, in the context of the fight to reduce poverty, the poverty assessment document is a remarkably useful tool for helping to formulate development strategies and policies.

The link between a review of public spending and the state of poverty in a country can be used to map the use of public funds based on the geographical and socio-institutional distribution of poverty. This generally demonstrates a significant discrepancy between the intentions as described in public expenditure programming, for both capital and operating expenditures, and the actual destination of the funds allocated in this way. In many countries, this discrepancy should constitute a strong incentive to undertake a reallocation of these funds in order to better match intentions with achievements.

The combination of the Public Expenditure Review document and the Poverty Assessment provides an extraordinarily valuable basis for preparing national development plans, with entirely realistic prospects for determining how effective public expenditures are applied. A case in point is Burkina Faso, where a comparison exercise between the two documents was carried out at the initiative of the government in the mid-1990s. It brought together all the representatives of the country's society in an open and transparent manner. Predictably, it revealed a considerable gap between the needs highlighted by the Poverty Assessment and the application of public expenditures. In the end, it formed the basis for the formulation of a new and quite exceptional national development strategy. This type of exercise highlights the relevance of this approach in terms of effectiveness.

Such a reality check is not without significant risks when it comes to publicising these discrepancies, particularly from a political point of view. Indeed, holding this exercise and publishing these two realities, expenditures on the one hand and needs on the other, involves obvious political and electoral risks. The government may not emerge unscathed from the comparison between the official discourse on the funding of public services and the reality as experienced in practice by marginalised populations in peripheral or neglected areas. In some cases, the government may simply refuse to release such documents in the run-up to an election, as was the case in Mexico at the end of the 1990s, for example.

In the private sector, however, we can rightly confirm some general lessons, namely the contribution of FDI to economic growth, increased productivity and poverty reduction. The contribution of SME development to job creation can be affirmed. Many other benefits confirm the potential effectiveness of private sector financing.

However, it would be extremely useful to take a comprehensive look at the whole issue, by comparing the specific features of the different types of contributions made by the main players in the private sector. This would give a better appreciation of the areas in which promotional actions, changes in strategies and policies, operating methods and regulatory mechanisms could be implemented.

For example, the experiences accumulated by certain impact investment funds over the past 20 years in favour of SME development in Africa are sources of considerable lessons, unfortunately far from being exploited as they could be. This is particularly true of the I&P group (Investisseurs et Partenaires), a true pioneer in the field of financing and supporting small businesses in Africa.

Conclusions and recommandations

The brief overview presented above, which is probably incomplete and somewhat schematic, not to say caricatural, highlights the complexity of the subject of the effectiveness of one or more development finance systems from the point of view of the sources of finance, the beneficiaries and end-users, and the whole process in between.

We can only conclude that the assessment of this effectiveness is far from optimal in the current state of affairs. Commendable efforts are being made to address one or more of the themes mentioned above. But we are far from having a reliable overall assessment of the current situation.

Clearly, the discussions and proposals around the theme of effectiveness have been and continue to be largely guided by the concerns of donors, rather than those of users or beneficiaries. It seems necessary to identify and implement mechanisms that will enable users and beneficiaries to be much more closely involved in the whole process of improving effectiveness in development financing.

Even more worrying is the fact that we have few tools with which to propose alternative solutions. Identifying and analysing weaknesses and shortcomings in the current system is not enough to propose concrete measures with a good chance of improving things.

We can, however, venture to formulate a few proposals to try and respond to some of the questions and challenges raised above. Some of these involve a more global approach, aimed at mobilising the energies of the key players at different levels. Others will have a more practical and prescriptive aspect by attempting to deal with a few specific subjects, without claiming to comprehensively address the challenges as a whole. At the very most, they can help to improve some of the specific obstacles identified in the diagnosis.

The general aspects include the following points:

First recommendation. It would seem useful to take up the question of funding effectiveness as a whole, in order to better identify and analyse the realities of which this short document is only the beginning. This is undoubtedly an academic endeavour, based on precise references and concrete, practical operational experience. It should therefore be clarified how effectiveness can be identified and measured at all stages, namely first at the level of the stakeholders (backers, donors, various contributors, etc.), then at the level of the beneficiaries or users of the funding, and finally at the level of the instruments implemented between the two.

Therefore, it would seem necessary to clarify the objectives of effectiveness at these different levels. What do we really mean, and what do we expect? Certainly, the considerable progress made in defining and measuring impact must be the starting point. We therefore need to see how, by going back to the notion of impact (on whom, what and how), we can clarify the notion of effectiveness in the intermediate systems leading to sources of funding.

Second recommendation. The above observation clearly confirms that concerns about the effectiveness of development financing have focused primarily on the financing of development aid by international public sector organisations. However, it is clear that this is only part of the problem. It therefore seems necessary to continue and proactively extend attention to the effectiveness of other sources of funding, particularly from the private sector. This should also include the need for a much more thorough assessment of the role of all stakeholders and players who are not currently part of the formal and structured institutional ecosystem, both in the public and private sectors. New strategies should be identified to ensure over time a minimum of coherence between the two groups of players, the "traditional" and the "new". The case of China is particularly important, especially as regards procurement procedures, decisions on financing methods, debt treatment, etc. The focal point of such an effort should probably be within the United Nations system.

Third recommendation. It has to be said once again that concerns about the effectiveness of development funding, whether global or limited to development aid, seem to mobilise mainly the institutions of the contributing countries, the sources of the funding. It would be more than necessary to be able to rely on the views, analyses, suggestions and recommendations of the main players in the beneficiary countries concerned, in both the public and private sectors. Setting up structures, mechanisms and strategies for consultation with these representatives should be a priority. This will necessarily require a much more coherent, not to say joint, approach on the part of funders. A monitoring and oversight mechanism could be envisaged within the United Nations, or perhaps within the G-20 (i.e., within organisations that are less likely to be accused of "Western bias").

More directly operational aspects include the following:

Fourth recommendation: Cross-referencing the review of public expenditure with the poverty situation in the countries concerned could serve as a basis for formulating strategies and programmes on the part of "donors", whether in the institutional public sector, the private sector, philanthropy, humanitarian aid or solidarity. A common basis serving as a reference for everyone, including the country's authorities and civil society, would avoid much of the dispersal of efforts seen to date, with objectives, strategies and interventions that are inconsistent with each other and sometimes contradictory, and certainly ineffective taken as a whole.

Fifth recommendation. The difficulties associated with the proliferation of external agencies, leading to States being bypassed by the creation of specific implementing agencies for external players, should lead to a substantial increase in efforts to help local authorities better manage the proliferation of players in this whole ecosystem. Efforts are still under way, but the results are still far below expectations. We can draw on the examples provided by the behaviour of countries that are already more advanced in this area.

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