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A Demand-Driven Approach to Development

A CSIS Primer

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A Report of the
CSIS PROJECT ON PROSPERITY AND DEVELOPMENT

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Acknowledgments

The CSIS Project on Prosperity and Development (PPD) project director and report author would like to thank a series of individuals for their invaluable contributions and partnership in this report. We would like to thank Tessie San Martin, Lester Munson, Gebreselassie Tesfamichel, Aloysius Ordu, and Jim Michel who participated in CSIS events on this topic in Washington, D.C. during December of 2017.

We thank our peer reviewers for their insight, guidance, and valuable comments. The author would also like to thank CSIS colleagues Nicolas Berlinski, Lili Vessereau, Alexandre Seringes, Casey Sword, and Brunilda Kosta for their research and editing support.

This report was made possible by the Royal Danish Embassy in Washington, D.C. We are grateful for their generous support and cooperation with the CSIS Project on Prosperity and Development.

Finally, we would like to thank the CSIS Dracopoulos iDeas Lab, Rebecka Shirazi, Jeeah Lee, Caroline Amenabar, and William Taylor, who helped us realize the vision of the report.

Contents

Executive Summary

What is a demand-driven approach to development?

- With stronger democracies, greater capacity to raise revenues, and increased bureaucratic effectiveness, developing countries are rightfully demanding greater ownership of their development process. This "demand-driven" approach to development aligns projects and budget support of donors with the domestic development agendas of aid recipient countries—a partnership approach to development.
- The demand-driven approach to development that is emerging is in deep contrast to the traditional foreign aid "supply-driven" approach, which is a model dictated by donors who allocate funds based on their own self-interest, and lacks enough local input to policymakers of what countries want.
- A series of international processes starting in the 1990s along with the increased availability of financing from other sources (including from China, impact investors, and private capital) and the expansion of the internet and digitalization, has facilitated this approach to development. Additionally, the less than optimal results of the traditional donor-driven model have motivated this new approach.

Why is demand-driven development important?

- A "supply-driven" approach-imposed costs on developing countries because part of the financial resources provided by a donor country had to be spent in goods and services from that donor country. This practice carried costs and requirements that served donors' self-interest at the expense of developing countries. Resources and efforts were channeled towards programs of less benefit to developing countries—diagnosed as issues worth tackling by donors who were less acquainted to the local needs.
- With new and emerging technologies, it is much easier to communicate with people from across the world. Technology makes it possible for donors to access the customers' voice. Technology can put project ownership in the customers' hands because it enables local voices to be heard and enables them to determine or evaluate the service that is being delivered by foreign aid providers. The use of technology platforms not only creates an opportunity to understand what developing country partners need but also allows them to provide feedback on how that need is being serviced, which helps close the feedback loop between policymakers and implementers/local actors and creates greater accountability of the donor.

- Untied aid and greater ownership on the part of developing countries can allow for more effective and beneficial paths to prosperity. Increasingly, developing countries are finding new sources of revenue such as domestic resource mobilization (e.g., taxes, savings, and fees) and private sector investment. Developing countries have a greater variety of options today to meet their needs and own their development path.

How is demand-driven development applied in practice?

- The concept of demand-driven development presented in the report stems from a series of internationally agreed upon principles by developed and developing country stakeholders (civil society, governments, bilateral/multilateral donors, private sector actors, and NGOs). These principles emerged from a number of high-level forums, including the seminal 2011 Busan Partnership for Effective Development Cooperation.
- The internationally agreed upon principles recognize, first and foremost, the need for country ownership of development. It also involves forging effective partnerships with donors, increasing transparency and accountability, involving local actors in the process, and untying aid in a rapidly evolving development landscape.
- Operationalizing the abstract concept of demand-driven development is complex—it can apply to three levels of the policymaking and project cycle. The first level where the demand-driven approach can be applied is in the strategic planning and design phase, where the developing country crafts a grounding framework for development (such as a national or sub-national development strategy) with country priorities at the project and sector level, involving relevant stakeholders (including civil society, the private sector, and citizens associations). The second level where the demand-driven approach can be applied is the implementation phase, where local actors are actively engaged in delivering the projects and program activities and putting funding that has been received to use. The third level where the demand-driven approach can be applied involves the outcomes phase of projects. Incorporating technology into the implementation process also creates opportunities to directly receive feedback from customers and enables donors to be more representative of the local voice. Development projects need to achieve impact on the ground, and for those successful outcomes to materialize, strong, transparent, and accountable partnerships that involve local stakeholders are needed. Moreover, the credibility and legitimacy of local leadership with citizens is enhanced when they are involved in the process.
- A set of global targets and indicators were developed by international processes to track progress towards a demand-driven approach to development. In the last few years, considerable progress has been made on several fronts, including country ownership and untying aid (overall), but increasing transparency and accountability, partnership approaches, and involving local actors still lag behind in many countries.

What does a demand-driven approach to development require from stakeholders?

- A demand-driven model of development involves giving greater decision-making freedom to developing countries. It also requires commitment, responsibility, and accountability on the part of involved government entities.

- Donors must approach development by including and engaging with national and subnational governments, local organizations, and civil societies to provide legitimacy and offer solutions based on local needs. The demand signal can come from more than just the national level—it can and should come from local voices as well.
- In order to be more demand-driven in practice and enable local developing country partners to own their development path, the United States and other donors must move away from a beneficiary mentality to one focused on partnerships or even a more customer-centric model.
- Strong partnerships between donors and recipients are essential and require building mutual trust and respect to align their priorities and craft successful development policy.

What does a demand-driven approach to development mean to the United States?

- In many developing countries, especially low-income countries, foreign aid still plays a significant role in financing government priorities and will continue to play a crucial role in the years to come. Yet foreign assistance is not adapting to the changing landscape of developing countries, and there is concern whether donors like the United States are able to deliver the level of flexibility and variety that countries are demanding.
- The United States must develop new approaches and utilize instruments beyond foreign aid that meet the needs of developing countries today. To ensure that low-income countries and, in particular, fragile and conflict-affected states make progress, the United States and other donors will need to embrace new approaches and instruments to tackle persisting development challenges.
- The United States must seek to embrace this new direction for the benefit of developing countries and as a way of maintaining soft power and U.S. strategic interests across the globe. To move forward, the United States must look back at the lessons learned from foreign aid and decide how to improve development policy. USAID's Journey to Self-Reliance is an important step in this direction.

Introduction

In many countries, financing development challenges such as humanitarian disasters, communicable diseases, and basic social services have, until recently, relied heavily on foreign aid. Foreign aid—also known as "official development assistance" (ODA)—consists of grants and concessional loans given by governments of developed countries and multilateral institutions ("donors") to less developed countries ("recipients") to help them solve difficult development problems.[1] Foreign aid has been used to fund specific projects ("project support") or given outright to governments as budget support.

Foreign aid and the international development architecture have their roots in the formation of the World Bank in 1944 and the end of World War II in 1945, after which the United States introduced the Marshall Plan to provide economic assistance in rebuilding war-torn Western Europe in 1948. The majority of the multilateral and bilateral development institutions providing foreign aid that are still operational were set up after World War II. Under U.S. leadership, organizations such as the United Nations (UN), the World Bank, the International Monetary Fund (IMF), the Organization for Economic Cooperation and Development (OECD), the World Trade Organization (WTO) and the U.S. Agency for International Development (USAID) have been instrumental in promoting democracy worldwide, fostering peace, increasing global trade, and achieving a more prosperous world. During these early days, foreign aid was initially steered by donors' self-interest and decisions, allocating funds based on their own analysis of what countries needed. Foreign aid and international development were "supply-driven", that is, determined by the suppliers of funds—i.e., the donor countries.

The landscape has been slowly shifting toward a development approach that is more "demand-driven": steered and owned by developing countries in partnership with donors.[2] Starting in the 1990s, various international processes sought to align development projects and budget support with recipient countries' needs, focusing on

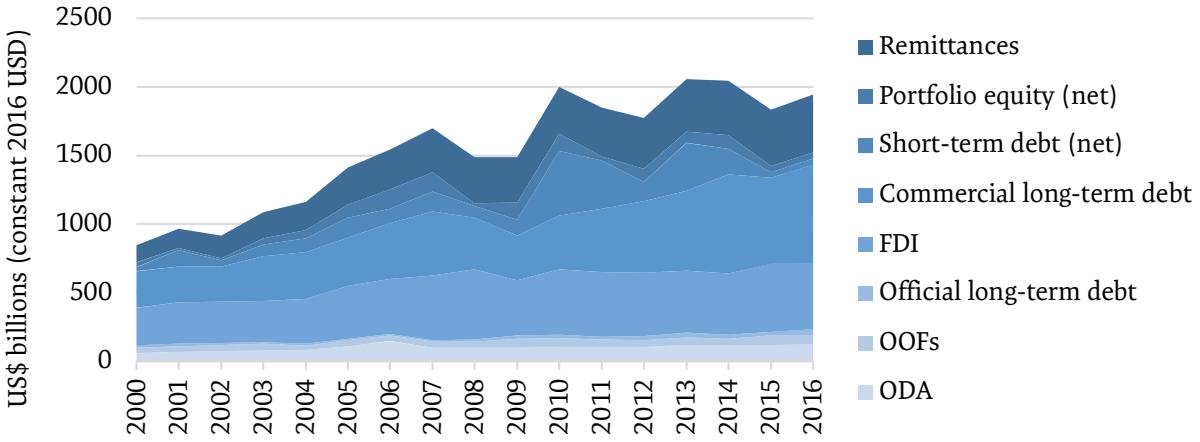
1. The OECD defines ODA as "flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25 percent." See: https://stats.oecd.org/glossary/detail.asp?ID=6043. Foreign aid or ODA is essentially public money given outright or loaned on concessional terms (subsidized); See: https://data.oecd.org/oda/net-oda.htm. See Annex 1 for a list of major bilateral and multilateral donors.
2. These various processes include the Paris Declaration (2005), Accra Agenda for Action (2008), and Busan Partnership for Effective Development Cooperation (2011).

"country ownership" of development solutions. This meant that recipient countries would identify their own priorities and implement their own development plans.

The landscape has been slowly shifting toward a development approach that is more "demand-driven": steered and owned by developing countries in partnership with donors.

The shift towards a demand-driven model of development is the result of three interrelated factors. First, many developing countries have improved their institutional capacity and have increased their ability to mobilize domestic resources via taxes and domestic savings, allowing them to craft their own development paths and finance public policy priorities.[3] Moreover, there are now additional sources of finance (such as private capital) and new actors (such as philanthropic foundations, NGOs, and China) that are providing added options (Figure 1). Finally, the Internet and the digitalization of the economy have put pressure on governments to become more transparent and accountable to their citizens and donors.

Figure 1: Sources of Development Finance



Source: Development Initiatives based on OECD DAC, UNCTAD, and World Bank[4]

In many developing countries, especially low-income countries, foreign aid still plays a significant role in financing government priorities and will continue to play a crucial role in the years to come. Yet foreign assistance is not adapting to the changing landscape of developing countries, and there is concern whether donors like the United States are able to deliver the level of flexibility and variety that countries are demanding. In order to ensure that low-income countries—particularly fragile and conflict-affected states—make

3. James Michel, *Beyond Aid: The Integration of Sustainable Development in a Coherent International Agenda*, (Washington, D.C.: CSIS and Rowman & Littlefield, 2016), https://www.csis.org/analysis/beyond-aid.
4. "International Investment Agreements Navigator," UNCTAD, http://investmentpolicyhub.unctad.org/IIA/CountryBits/223; "World Development Indicators: Trade in Developing Countries (excluding China) from 1996-2016)," *The World Bank*, http://databank.worldbank.org/data/source/world-development-indicators.

progress, the United States and other donors will need to embrace new approaches and instruments to tackle persisting challenges.[5]

The U.S. foreign aid approach will need to continue to shift to one that is more in line with a demand-driven approach to development. In this regard, USAID Administrator Mark Green has emphasized that the U.S. should end the need for foreign assistance and countries should take greater ownership of their development path, lessening their dependence on foreign aid.[6] As part of this drive, USAID has re-oriented its operations through a new approach—the Journey to Self-Reliance—focusing on assisting countries in their ability to solve their own development challenges. USAID has developed a tool to assess developing countries' current development position on the path to self-reliance and evaluate how USAID can provide the most effective support.[7] The founding principles of the Journey to Self-Reliance approach are in line with a demand-driven approach to development. USAID has been working with local partners through "co-creation" approaches where programs are defined more collaboratively. USAID recently released a new procurement strategy with a goal to shift 10 percent of parts of the budget toward co-creation.[8] Furthermore, the BUILD Act, which was passed in 2018, created the new U.S. International Development Finance Corporation, which closely aligns with elements of demand-driven development.

The following paper discusses the concept and importance of a demand-driven approach to development. It describes its progress and identifies the main challenges of operationalizing the concept. The paper covers the demand-driven approach from the perspective of the United States, presenting a set of recommendations to create a more effective framework for development partners. The aim of the paper is to spur dialogue across development actors (civil society, NGOs, the private sector, and developed and developing country governments) about the programmatic and policy changes that need to take place to fully adopt the principles of demand-driven development and ultimately drive greater success in development activities.

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5. Daniel F. Runde, A Tale of Two Paths: Divergence in Development (Washington, D.C.: CSIS, 2017), https://csis-prod.s3.amazonaws.com/s3fs-public/publication/170227_Runde_DivergentDevelopmentLandscape_Web_0.pdf.
6. "USAID Administrator Mark Green Delivers Remarks at the Opening Session of Global Innovation Week," *USAID*, September 28, 2017, https://www.usaid.gov/news-information/press-releases/sep-28-2017-usaid-administrator-mark-green-delivers-remarks-opening-session.
7. "The Journey to Self-Reliance," USAID, https://www.usaid.gov/selfreliance.
8. "Transforming Our Programs Effective Partnering and Procurement Reform," USAID, September 30, 2019, https://www.usaid.gov/sites/default/files/documents/1868/EPPR_Fact_Sheet_Revised_11.7.pdf.

1 | The Importance of a Demand-Driven Approach to Development

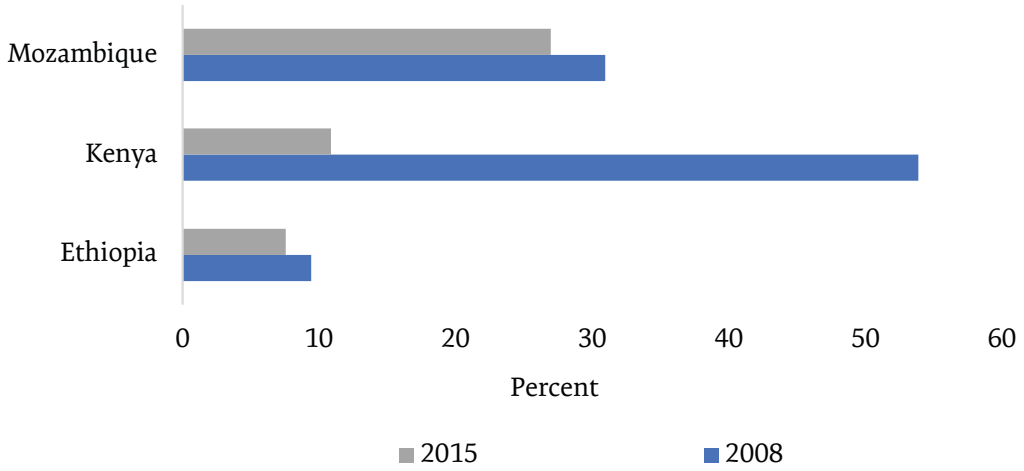
The development landscape has evolved significantly over the last 30 years. Developing countries are now more capable of managing their own development paths: they have greater freedom and prosperity, more agency, and have more financing options. The relevance of aid, in terms of budgets for most countries—except for low income and fragile states—is much smaller than it used to be. In 20 African and Latin American countries surveyed by the OECD, the tax-to-GDP ratio has increased by more than 5 percentage points from 2000 to 2015.[9] As countries increase their tax revenue, they are able to pay for their basic services on their own.

It is a well-known success story that developing countries are increasingly less reliant on ODA (Figure 2), and thus are growing more intolerant toward the practices of distributing loans and grants in which donors impose their own terms of development. For example, Kenya's ODA represented more than 10 percent of the health and education budget in 2015 while this figure was more than 50 percent in 2008 (Figure 2). Through a combination of economic growth, stronger governance and budget management, and an expanding array of willing lenders and foreign exchange sources, many countries have become less dependent on donors. Yet some would argue that development agencies operate in a "top-down" model where developed countries control the terms, sector focus, and financial lending practices, making them increasingly irrelevant partners for developing countries. Because of this, developing countries are turning to and creating new alternatives.[10]

Through a combination of economic growth, stronger governance and budget management, and an expanding array of willing lenders and foreign exchange sources, many countries have become less dependent on donors.

9. "The Global Revenue Statistics Database," OECD, April, 2019, http://www.oecd.org/tax/tax-policy/about-global-revenue-statistics-database.pdf.
10. Lant Pritchett, "Can Rich Countries Be Reliable Partners for National Development?" Center for Global Development, February 3, 2015, https://www.cgdev.org/publication/ft/can-rich-countries-be-reliable-partners-national-development.

Figure 2: U.S. ODA on Health and Education as a Percent of Government Expenditure



Source: USAID; Government Expenditure Statistics[11]

New sources of finance, including new donors such as China and untapped funding such as impact investment and private capital, have allowed countries to find new ways to meet their hopes and aspirations. There is concern whether donors like the United States are able to deliver the level of flexibility and variety that countries are demanding, and until steps are taken to mitigate this, Chinese influence will grow. Many donors are shifting towards viewing development partners as customers rather than as beneficiaries. Through this lens, it enables donors to build relationships with partners and develop a customer base that has a variety of options, more agency and ownership, and the ability to decide the direction they want to take to achieve their development goals.

For years, foreign aid critiques such as those of William Easterly, Lant Pritchett, and Dambisa Moyo have reflected on the changes needed to the current foreign aid model in the United States.[12] The U.S. foreign aid system has been described as delivering on outdated needs of developing countries that are inappropriate for current conditions. The needs of developing countries have changed without aid changing to fit those needs. It is a common critique that donors are well-positioned but are not effective and ill-suited to meet the needs of developing countries.

As argued by Lant Pritchett, one reason that donors in the West are becoming less relevant is because the Western coalition that supports aid has changed significantly towards

11. Authors calculations were based on USAID expenditures of top sectors, including basic education and health (which consisted of HIV/AIDS, basic health, maternal and child health, and family planning). "Foreign Aid Explorer: Top Sectors (Disbursements of 2008 and 2015)," USAID, https://explorer.usaid.gov/cd; "Domestic General Government Health Expenditure (% of GDP)," The World Bank, https://data.worldbank.org/indicator/SH.XPD.GHED.GD.ZS; "Government Expenditure on Education, Total (% of GDP)," The World Bank, https://data.worldbank.org/indicator/SE.XPD.TOTL.GD.ZS; "GDP (current US$)," The World Bank, https://data.worldbank.org/indicator/NY.GDP.MKTP.CD.

12. William Easterly, *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good* (New York: Penguin, 2006); Dambisa Moyo, *Dead Aid: Why Aid Is Not Working and How There Is a Better Way for Africa* (New York: Farrar, Straus and Giroux, 2010); Lant Pritchett, *Let Their People Come: Breaking the Gridlock on Global Labor Mobility* (Washington, D.C.: Center for Global Development, 2006).

a political base that is "postmaterialist" where the intangible goal of prosperity has overtaken the value of economic security.[13] This argument suggests that Western donors are less and less supportive of material gains as an important objective of assistance. This has shifted the political discourse about foreign aid in the West away from the priorities of the developing countries themselves.[14] The idea behind this argument is that donors come from prosperous societies and therefore cannot closely relate their financial situations with those of developing countries, thus causing donors to set priorities that are "out of touch" with the realities of developing countries. This can contribute to tensions between donors and recipients and increase intolerance, leading developing countries to find alternative funding sources.

Another argument by William Easterly contributes to the idea that foreign aid is ineffective and uncoordinated and thus cripples the ability for developing countries to improve their economic conditions. Donor countries oftentimes offer ineffective policies and mechanisms of implementation, and further, they are not held accountable to their performance and lack the minimum standards of transparency. Researchers in this field have discovered that, in most cases, solutions provided by foreign aid led to the undermining of the ability of recipient countries.[15]

In a review of Dambisa Moyo's book, Dead Aid, William Easterly largely agrees with her argument that development is still deeply rooted and influenced by its origins, which is often represented by a paternalistic metaphor.[16] This metaphor is represented by developed or rich countries who have achieved a prosperous society and thus represent adulthood while developing or poor countries in impoverished conditions represent childhood.[17] The metaphor stems from before the beginning of modern foreign aid (which we describe in this report as following the Marshall Plan in the 1940s) and is built off of colonial attitudes toward developing countries. One example of this is in the colonial language we still use to describe developing countries. In this paper, we use "donor" and "recipient" to differentiate between developed and developing countries, but we intend to emphasize that it is a partnership rather than a one-way street. Today, donors often still refer to their partners as "beneficiaries." The beneficiary mentality is prolonging the paternalism that Easterly refers too. By viewing partners as "customers" it enables greater agency, respect, and empowerment that puts the ownership in the hands of developing countries, thereby removing the paternalistic nature.

While modern-day development has mostly good intentions, the paternalism referred to by Easterly can also be seen through how developed countries guide developing countries, as though unintentionally to say that developed countries have more knowledge and advice to supply to developing countries, instead of recognizing that both partners should utilize their unique knowledge to weigh-in on the development challenges at hand. The

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13. Lant Pritchett, "Can Rich Countries Be Reliable Partners for National Development?" Center for Global Development, February 3, 2015 https://www.cgdev.org/publication/ft/can-rich-countries-be-reliable-partners-national-development.
14. Ibid.
15. Moosa Elayah, "Lack of Foreign Aid Effectiveness in Developing Countries Between a Hammer and an Anvil," *Contemporary Arab Affairs* 9, no. 1 (January 2016): 82-99.
16. William Easterly, "Review of Dambisa Moyo's book Dead Aid," June 2009, https://williameasterly.files.wordpress.com/2011/07/moyoreviewforlrbjune2009neverpublished.pdf.
17. Ibid.

authoritarianism may result from the feeling that poor societies do not have enough international standards in place to make democratic regimes possible, suggesting that there is no viable way to hear the voice of developing countries.[18]

Moreover, foreign aid donors often set their own systems to manage projects in developing countries without properly developing the agency or capacity to take ownership and ensure progress is sustainable even after donors exit, leaving countries aid-dependent. This can be seen with basic services provisions, where donors have long supplied financial aid to prop up the health and education budgets of developing countries without a structured handoff in place. Once developing countries reach a certain revenue threshold, donors should transition to addressing other development needs. The paternalist undertones in foreign aid often continue to deliver on basic human needs even when it becomes inappropriate or ill-suited to the current development situation. Furthermore, aid dependency and "donor ownership" have contributed to developing countries' distrust in working with traditional Western partners, with those countries recognizing that their voices can often be undermined.

The developing world needs more sophisticated options than the United States and other Western partners are prepared to give them. The support that developing countries are seeking goes beyond aid: it can come in the form of partnerships in science, technology and innovation (knowledge sharing and/or technical expertise); educational exchanges; and increased trade and investment flows. It is apparent that many of the developing countries the United States works with see these areas as a value-add. While the United States should remain responsive to humanitarian and emergency response needs, there is increasing demand for more advanced products and services in these areas, and the United States and other partners should evolve to fit this demand. The demand-driven model discussed in this report offers a framework to improve the United States and other donors' ability to deliver on current developing countries needs in a more strategized and inclusive way. The next section of this report will describe the demand-driven approach to development, provide an overview of the framework, and explain how it can be used to improve aid effectiveness.

While the United States should remain responsive to humanitarian and emergency response needs, there is increasing demand for more advanced products and services in these areas, and the United States and other partners should evolve to fit this demand.

18. Ibid.

2 | What Is a Demand-Driven Approach to Development?

The principles of a demand-driven approach to development have evolved from the origins of foreign aid in the mid-1940s to the present day. A brief history of the approach examines several decades of transformative international agendas that set out to improve development processes (Annex 2). The most recent efforts are the High-Level Forums on Aid Effectiveness led by the UN and OECD from 2003 to 2011, where stakeholders in governments, the private sector, and civil society from developed and developing countries convened, designed, and adopted resolutions to reinforce their commitment to improving foreign aid effectiveness (see Box 1). The principles that came out of these international efforts form the basis of a demand-driven approach to development.

BOX 1: UN AND OECD PROCESSES

The First High-Level Forum: The Rome Declaration of Harmonization (2003): continued commitments to the eradication of poverty and improving the effectiveness toward achieving the Millennium Development Goals (MDGs). It incorporated local stakeholders in funding and procurement systems in developing countries. This agreement helped to bring the demand-driven principles of country ownership and local partnerships to the forefront of development projects.

The Second High-Level Forum: The Paris Declaration (2005): over 100 developed and developing countries, 26 international organizations, and 14 civil society organizations (CSOs) agreed that "partner countries would exercise effective leadership over their development policies and strategies and co-ordinate development actions."[19] The forum established a monitoring survey to measure progress toward achieving the targets set forth by the agreement (Table 1).[20]

19. OECD, *The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action* (Paris, France: OECD, 2008): 21, http://www.oecd.org/dac/effectiveness/34428351.pdf.
20. "Paris Declaration and Accra Agenda for Action," OECD, 2005, http://www.oecd.org/dac/effectiveness/paris-declarationandaccraagendaforaction.htm.

The Third High-Level Forum: Accra Agenda for Action (2008): further broadened the scope of local participation—aligning priorities among 80 developing countries and OECD's Development Assistance Committee (DAC) donors and 3,000 CSOs.[21] The agenda aimed to open constructive dialogue between governments, civil society, and donors. To this end, the agenda proposed more adaptive aid policies; one of those included promoting the role of stakeholders and non-state actors outside of the central government.

The Fourth High-Level Forum: Busan Partnership for Effective Development Cooperation (2011): was the most recent coordinated agreement that aimed to improve upon the indicators of the previous three forums on aid effectiveness. Endorsed by 162 countries and territories and 52 international organizations, Busan reaffirmed the targets of Accra and Paris based on results, national ownership, inclusive development partnerships, and transparency and accountability of all actors involved. The Busan agreement resulted in the establishment of the Global Partnership for Effective Development Cooperation (GPEDC) and developed a set of indicators and a monitoring framework to measure progress on the agreement (Table 1).[22]

Addis Ababa Action Agenda (2015): was adopted months prior to the UN SDGs by 193 nations and created a foundation for implementing and financing the SDGs. It called for country ownership through "cohesive nationally-owned sustainable development strategies developed by integrated national financing frameworks," emphasizing further that the role of donors is to abide by country policies and complement the country's strategies for development.

United Nations Sustainable Development Summit (2015): the Summit gathered 193 UN member countries and adopted the UN Sustainable Development Goals (SDGs). The SDGs contain 17 global goals that countries should aim to achieve by 2030 with specific targets. Specifically, Goal 17 aims to "strengthen the means of implementation and revitalize the global partnership for sustainable development." Within this goal, there is a call to engage "the use of country-owned results frameworks and planning tools by providers of development cooperation." As part of this partnership, the Global Partnership for Sustainable Development Data was developed to collaborate with more than 150 organizations, companies, and governments to fill current data gaps and share knowledge that will support the progress toward achieving the development goals. This serves as another platform to hold development partners accountable to achieving the SDGs by measuring their progress and making it publicly available.

21. OECD, *The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action*.
22. Out of the High-Level Forums on Aid Effectiveness, the Global Partnership for Effective Development Cooperation was established which has held two high-level meetings: the first in Mexico and the second in Nairobi. Each of these meetings produced documents that build on the key principles established by the Busan Partnership agreement. See: http://effectivecooperation.org/events/1st-high-level-meeting/.

There is no single definition of "demand-driven development." A simple Google search of the term yields related concepts such as community-driven development, demand-driven governance, country ownership, local ownership, community-based development, partnership for development, decentralization, and effective cooperation (Box 2).

In this paper, we refer to demand-driven development as a renewed approach to development that focuses on partnerships between donors and recipient countries with the aim of strengthening developing countries' ownership in the development policy process and outcomes.[23] This approach has emerged from a series of international processes and agreements, including High-Level Forums on Aid Effectiveness (2003 to 2011) and the UN Sustainable Development Goals (SDGs) created in 2015 (Box 1).

BOX 2: DEMAND-DRIVEN DEVELOPMENT: RELATED CONCEPTS

The most used concepts associated with demand-driven development are community driven and/or community-based development (CDD/CBD) and decentralization. While CDD operates more so from a bottom-up approach, decentralization seeks to distribute power and financial autonomy from the top-down. Demand-driven development supports mutual accountability across all development actors and proposes indicators to monitor the progress of actors' efforts toward achieving specific outcomes.[24]

- *Community-driven and community-based development* refers to building strong partnerships and engaging local ownership and civil society participation in the design and implementation of projects. CDD does this by engaging community-based organizations (CBOs), who help manage goods and services at the community level. Similarly, CBD specifically focuses on programming that is designed around providing basic social services to communities in need of humanitarian or emergency relief.[25] CDD programs leverage greater downward accountability, and CBD recognizes the immediate needs that require a response from a local bottom-up level.[26]
- *Decentralization* is a related concept, characterized as a process of administrative and resource delivery to subnational and local levels with the aim that it will improve democratic governance, provide

23. Throughout the paper, "donors" are also encompassed in the term "development partners" and "development actors." "Recipient countries" are also referred to as "partner countries" in an attempt to emphasize the important role of partnerships as opposed to the former donor-recipient model.
24. Derick W. Brinkerhoff with Omar Azfar, *Decentralization and Community Empowerment: Does community empowerment deepen democracy and improve service delivery?* (Washington, D.C.: RTI International, 2006), http://pdf.usaid.gov/pdf_docs/Pnadh325.pdf.
25. Philippe Dongier, et al., "Chapter 9: Community-Driven Development," In *A Sourcebook for Poverty Reduction Strategies: Volume 1: Core Techniques and Cross-Cutting Issues*, edited by Jeni Klugman, (Washington, D.C.: The World Bank, 2002), http://siteresources.worldbank.org/INTPRS1/Resources/383606-1205334112622/5805_chap9.pdf.
26. "Community-Driven Development," The World Bank, https://www.worldbank.org/en/topic/community-drivendevelopment; Casey Dunning, Sarah Rose, and Claire McGillem, *Implementing Ownership at USAID and MCC: A US Agency-Level Perspective* (Washington, D.C.: Center for Global Development, 2017), https://www.cgdev.org/publication/implementing-ownership-usaid-mcc.

greater autonomy to local jurisdictions, and empower communities.[27] Decentralization often deals more closely with the distribution of decisions, responsibility, and financial resources across the public service sector, rather than the community or civil society. However, decentralization does not necessarily increase accountability and has proven to have minor impact on the relationship between civil society and government institutions, though it encourages it.[28] CSOs often encounter competition from businesses whose interests are fulfilled foremost by the public sector.

Demand-driven development has the following five defining elements or principles (Figure 3):

Figure 3: Principles of a Demand-Driven Approach to Development

- **Principle 1: Country Ownership** means that governments at both the national and subnational level have enough power, legitimacy, and capacity to design and implement a national development strategy, programs, and initiatives—effectively setting their own priorities.[29,30] This requires commitment, responsibility, and accountability on the part of involved government entities and donors.[31] Some definitions of country ownership encompass the ability of national and subnational governments to partner with local actors (including NGOs, community-based organizations, businesses, and civil society). Donors must also be willing to have a dialogue with local stakeholders, for example, to identify each other's priorities. Country ownership has different levels to it, whether referring to internal

27. Brinkerhoff with Azfar, *Decentralization and Community Empowerment*.
28. Ibid.
29. Stephanie Watson, Khou Xiong, and James C. Thomas, *Country Ownership in International Development: Toward a Working Definition* (Chapel Hill, NC: MEASURE Evaluation, 2016).
30. "Comprehensive Development Framework," The World Bank, http://web.worldbank.org/archive/website01013/WEB/0__CON-5.HTM.
31. Watson, Xiong, and Thomas, *Country Ownership in International Development*.

relationships between national or subnational leadership and local partners, or external relationships between multilateral or bilateral organizations/the private sector and governments at the national or subnational level.[32] However, there is not one definition that encompasses the different interpretations of it.

In the United States, the premier bilateral aid agencies—USAID and the Millennium Challenge Corporation (MCC)—both have strong commitments to the concept.[33] Country ownership is a core operating principle at the MCC; they consider country ownership to be "when governments takes the lead in setting priorities for MCC investments in close consultation with citizens and civil organizations."[34] For USAID, country ownership is an important component of partner countries' Journey to Self-Reliance to help countries get to a point in their development where foreign assistance is no longer needed.[35] In the context of this paper, CSIS approaches country ownership from the position of recognizing mutual responsibility of all partners (which includes national and subnational governments, NGOs, donors, civil society actors, private sector actors, etc.) who should be seen as relevant and involved in a project.

- **Principle 2: An Inclusive Partnership Approach** means that development partners work together and approach development by including and engaging with national and subnational governments, local organizations, and civil societies, for instance, to identify priorities for policy, programming, and projects. Two of the main components of strong partnerships include transparency and accountability, especially because partnerships are built on mutual respect and trust.[36] In effect, these partnerships work to support development goals and "recognize the diverse and complementary roles of all actors."[37]

- **Principle 3: Involving Local Actors** means including domestic citizens and organizations in discussions and decisions around development priorities in a community. Local actors include governments (both national and subnational), civil society groups, NGOs, and community-based organizations (CBOs). Involvement should include consulting with these actors regularly and incorporating their feedback and opinions throughout the process. Local level buy-in can often be facilitated at the national government level to strengthen the social contract.[38]

- **Principle 4: Untying Aid** means that donors are essentially removing barriers to enable developing countries to choose the markets they exchange goods and services with. When donors "tie aid", they are providing aid on the condition that the developing country partner will purchase its goods or services from the donor, even if it is not in the developing country's interest. It is often perceived as a way for the donor to ensure its financial or programmatic contribution is mutually beneficial,

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32. Dunning, Rose, and McGillem, *Implementing Ownership at USAID and MCC*.
33. Ibid.
34. "Country-Led Poverty Reduction," The Millennium Challenge Corporation (MCC), https://www.mcc.gov/initiatives/initiative/country-ownership.
35. "The Journey to Self-Reliance," USAID.
36. "The Busan Partnership for Effective Development Co-operation," OCED, December 1, 2011, http://www.oecd.org/development/effectiveness/busanpartnership.htm.
37. Ibid.
38. Dunning, Rose, and McGillem, *Implementing Ownership at USAID and MCC*.

yet it has many costs for developing countries such as increased project cost to the donor, increased cost to the country, and limited operational flexibility.[39] Significant evidence points to the fact that tied aid actually harms developing countries because they do not receive the value for money; therefore, untied aid is more cost-effective.[40]

- **Principle 5: Transparency and Accountability** means development partners/donors and developing countries should make budgets and programmatic information and statistics publicly available; such efforts form the basis for accountability. By making information publicly available, developing country governments and development partners hold each other accountable to the budget allocations, timeline, and results agreed upon. The MCC, for example, enables country governments to take the lead with a local project team to design programs and set priorities in close consultation with local organizations and civil society. The consultation process enables domestic stakeholders to hold MCC's programs accountable to those agreements.

In terms of operationalizing the abstract concept of demand-driven development, this approach can occur at three levels of the policymaking and project cycle:

1. at the strategic design and planning stage
2. at the delivery (or implementation) stage
3. at the outcomes stage

1. **Strategic Design and Planning:** This is the first stage of a project or policy intervention whereby the developing country has a grounding framework such as a national or subnational country strategy or development strategy (for example, Afghanistan 2017-2021).[41] This document identifies development goals and sets realistic expectations; articulates country priorities at the project, program, and sector level; reflects the priorities of all involved stakeholders, including civil society, the private sector, and citizens associations; and lays the groundwork for development. At the level of strategic design and planning, these stakeholders determine areas of alignment and where they complement one another in their strategies.[42] Depending on the project, local involvement is a precondition to ensure local buy-in and personal commitment to the outcomes as well. Before designing a project, donors with government partners should identify the locally legitimate authorities and determine whether they are recognized as such in the eyes of other donors and local partners. Once those leaders are identified, donors, project implementers, and those in close interaction with local partners (such as the local private sector, entrepreneurs, etc.) should help create the conditions for buy-in from those stakeholders or customers, first and foremost, by including them in discussions around donor and local partner visions and priorities. Implementing demand-driven processes that involve identifying local representation

39. Edward J. Clay, Matthew Geddes, and Luisa Natali, *Untying Aid: Is it Working? Evaluation of the Paris Declaration and of the 2001 DAC Recommendation of Untying ODA to the LDCs* (Copenhagen, Denmark: Danish Institute for International Studies, 2009), https://www.odi.org/publications/5532-untying-aid-it-working-evaluation-implementation-paris-declaration-and-2001-dac-recommendation
40. Ibid.
41. Office of the Deputy Minister for Policy, *The Afghanistan National Peace and Development Framework (ANPDF) 2017 to 2021* (Kabul, Afghanistan: Ministry of Finance Islamic Republic of Afghanistan, 2016), http://extwprlegs1.fao.org/docs/pdf/afg148215.pdf.
42. Dunning, Rose, and McGillem, *Implementing Ownership at USAID and MCC*.

and legitimate leaders, discussing partner priorities, and creating local buy-in makes a program more likely to succeed.[43]

2. **Delivery:** The second stage would include delivering funding, projects, and program activities. In the implementation stage, demand-driven development requires the involvement and engagement of local actors (particularly NGOs and civil society). Designing and operationalizing a project requires a certain degree of ownership at the local level. Local entities are also needed in this process to design monitoring and evaluation methods that are relevant to both local constituents and donors.[44] In order to engage local entities, donors and national- and local-level partners need to create incentives for customer buy-in, and part of that buy-in can be achieved by incorporating their priorities into a project as well. While this may be more likely achievable for small- and medium-sized projects, for larger-scale projects such as in infrastructure (e.g., railroad or power grid construction or telecom development), there should be better modalities such as conducting an initial assessment for properly vetting major strategic projects to ensure they are mutually agreed upon. In the project delivery phase, donors should integrate mechanisms for feedback. With the proliferation of technology access and use in developing countries, donors should utilize this avenue as a way to collect feedback and leverage the voice of its customers.

3. **Outcomes:** Finally, in order to achieve desired project outcomes, it is essential to have strong partnerships, untied aid, and local involvement. Strong partnerships are important to a project's success because they are characterized by a degree of accountability and transparency. These characteristics are also critical to the longevity of a project's success because local partners serve as the reinforcement and maintenance of long-term sustainability. Local stakeholders are more likely to buy into a project if it fits a need. If local stakeholders agree to a project (for example, constructing a school in a rural community), when it is successfully completed at the hands of those local stakeholders who took part in designing the project that they envisioned, it increases local leadership legitimacy and credibility.

43. Ibid.
44. Ibid.

3 | Implementing a Demand-Driven Approach to Development

Parallel to the evolution of the demand-driven development concept, a set of global targets and indicators were developed by international processes to track progress towards this approach. This section reviews the progress on implementing the five principles of a demand-driven approach to development: country ownership, inclusive partnerships, the involvement of local actors, untying aid, and greater transparency and accountability. The progress measurements used in this section are primarily based on the Busan monitoring rounds in 2014 and 2016 (Table 1).[45] This is the most comprehensive international monitoring tool measuring both donors and local stakeholders.

Considerable progress has been made on several fronts. The data reported by the Global Partnership for Effective Development Cooperation (GPEDC) shows that among the five demand-driven principles that we have put forward, country ownership and untying aid (overall) are on track, while increasing transparency and accountability, partnership approaches, and involving local actors still lag behind in many countries.

One of the main challenges of measuring progress is that the indicators have not always been consistent: indicators have changed, leading to fewer baseline measurements and only one reporting year in the case of some indicators.[46] Development partners each set their own indicators and define goals independently of coexisting operations, but this function can overlook the narrative that is created by each entity in a country. In other words, development organizations should strive to develop a template that will help implementers incorporate, measure, and standardize evaluation of the progress. The GPEDC monitor has good results illustrating progress on some indicators, but there are gaps and inconsistencies in measuring these indicators year to year (i.e., changing methodology or changing the categorization of certain indicators). While it is important to ensure indicators are accurately and effectively portraying information on effective

45. OECD/UNDP, Making Development Co-operation More Effective: 2016 Progress Report (Paris, France: OECD, 2016): 136, http://www.undp.org/content/dam/undp/library/development-impact/--2016%20progress%20report--Final%20(e-book).pdf.
46. There have been three monitoring reports under the GPEDC in 2011, 2014, and 2016. The reports evaluate more than 60 international development donors and another 60 developing countries measuring development progress and effectiveness. The GPEDC convenes to decide on revisions to the existing indicators and improve the methodologies. As a result, the last three monitors have not produced consistent, comparable results.

partnership cooperation, it is also important to ensure results are valuable and can be compared to show trends over time.

Table 1: Demand-Driven Development: Indicators of Progress[47]

Paris Declaration (2005)	***Busan (2011)***
1. Operational Development Strategies 2a. Reliable public financial management (PFM) systems 2b. Reliable procurement systems 3. Aid flows are aligned with national priorities 4. Strengthen capacity by coordinated support 5a. Use of country public financial management (PFM) systems 5b. Use of country procurement systems 6. Strengthen capacity by avoiding parallel project implementation units (PIUs) 7. Aid is more predictable 8. Aid is untied 9. Use of common arrangements of procedures 10a. Joint missions 10b. Joint country analytic work 11. Results-oriented frameworks 12. Mutual accountability	1a. Development partners use country/government-led results frameworks 1b. Countries/governments set their own development priorities and results 2. Civil society organizations operate within an environment that maximizes their contribution to development 3. Public-private dialogue promotes private sector engagement and its contribution to development 4. Transparent information on development cooperation is publicly available 5a. Development cooperation is predictable (annual) 5b. Development cooperation is predictable (medium-term) 6. Development cooperation is included in budgets subject to parliamentary oversight 7. Mutual accountability is strengthened through inclusive reviews 8. Governments track public allocations for gender equality and women's empowerment 9a. Governments strengthen country PFM systems 9b. Development partners use country PFM and procurement systems 10. Aid is untied

USAID's current initiative, the Journey to Self-Reliance, supports goals set forth by Busan to give countries ownership over development activities. Under this initiative, USAID created a country roadmap portal that tracks metrics of its partner countries' journeys, including progress on their commitment to inclusive development, accountable governance, and the capacity of civil society, citizens, and the

47. OECD/UNDP, *Guide to the Monitoring Framework of the Global Partnership* (Paris, France: OECD, 2013), http://effectivecooperation.org/wp-content/uploads/2016/08/Guide-to-the-GP-Monitoring-Framework.pdf.

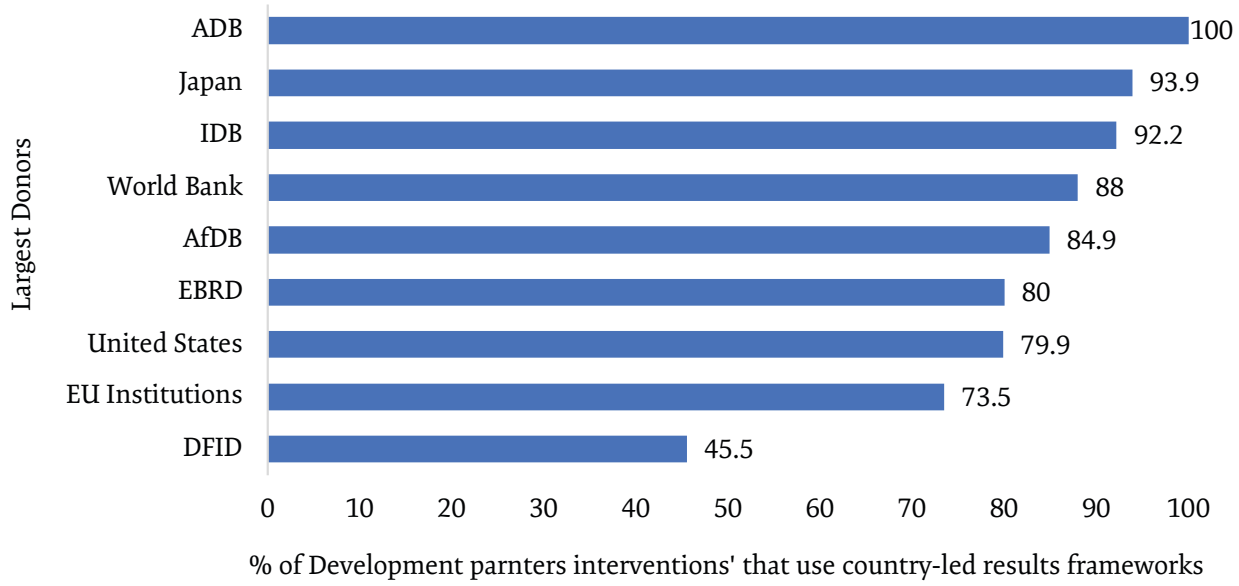
government.[48] This initiative supports the long-term effort to put development in the hands of the people it serves.

Progress on Implementing Country Ownership

Measuring progress on country ownership is based on whether a country has a national development strategy and how well it is operationalized. In 2016, nearly all of the 81 developing countries surveyed reported having strategic documents considered to be country-led results frameworks either at the national or sector level, and 65 of the 77 countries have a national development plan in place.[49]

The 2016 monitoring report also showed that 85 percent of development partners are increasingly using country-defined priorities to design new interventions (Figure 4).[50] Development partners are using national strategy plans, ministerial or institutional plans, sectoral plans, other government tools, or development plans created in collaboration with development partner countries to align priorities (Busan Indicator 1a).[51] Moreover, in 2015, more than 70 development partners made efforts to increase development cooperation, channeling approximately $72.8 billion toward interventions that would use country-led frameworks to better align donor and national priorities.[52,53]

Figure 4: Development Partners Use of Country-Led Results Frameworks (2016)



Source: Global Partnership for Effective Development Cooperation[54]

48. "The Self-Reliance Metrics & Country Roadmaps," USAID, https://selfreliance.usaid.gov.
49. OECD/UNDP, *Making Development Co-operation More Effective*.
50. Ibid.
51. Ibid., 48-49.
52. In the GPEDC monitoring reports, "development partners" is the term used to describe donors including government agencies, NGOs, philanthropies, development finance institutions (DFIs), and multilateral development banks (MDBs).
53. The estimate of 70 development partners is based on those partners who drew development interventions from country-led results frameworks in 70 percent or more of assessed interventions; OECD/UNDP, *Making Development Co-operation More Effective*: 154.
54. "2016 Monitoring Data by Partner," *Global Partnership for Effective Development Co-operation*, 2016, http://ef-

The donors listed in Figure 4 are the largest donors surveyed by the GPEDC in terms of financial contribution. The Asian Development Bank (ADB) has a striking 100 percent of its assessed interventions aligned with country-led results frameworks. The United States only has 80 percent of its assessed interventions aligned with country-led results frameworks and is ranked 64 out of 87 development partners.[55] The United States (in particular USAID in the case of the GPEDC monitoring report) has fallen behind in aligning U.S. development priorities with local development priorities; this is in part due to an outdated institutional process that exacerbates a disconnect between Washington, D.C. policymakers and field representatives/implementers on the ground. One challenge for the United States is its limited ability to align its priorities with local priorities. Overcoming this challenge will require reconciling donor self-interest with developing country needs. U.S. development partners will need certain flexibility within the elements of the development financing infrastructure in order to use country-led systems. The GPEDC in 2016 showed that only 28 percent of results indicators for a project were monitored using government sources and monitoring systems.[56] Moreover, only 8.8 percent of U.S. intervention objectives were drawn from the development partner's country strategy that was agreed on by the partner country government.[57] This could reflect the low level of consultation with local actors or inflexibility of the U.S. development finance structure, which leads to a low level of country ownership. If priorities do not align with local constituents, this forces missions to reconcile differences, and U.S. interests are almost always at the forefront.[58]

One challenge for the United States is its limited ability to align its priorities with local priorities. Overcoming this challenge will require reconciling donor self-interest with developing country needs.

Despite the story that these figures tell, there are several questions surrounding the measurements and methodology of the GPEDC monitoring rounds, including what constitutes a "country-led framework"? What factors determined the level of "alignment" of interventions with country frameworks? What partners were involved in the creation of the results framework? Does the results framework equally incorporate the priorities and opinions of the state, subnational, and civil society levels? These questions and others are raised by development partners (civil society, NGOs, governments, the private sector, etc.) in GPEDC-led meetings that serve as a platform to identify gaps in the monitoring surveys and performance measurements.

BOX 3: MCC VS. USAID

USAID and MCC are U.S. bilateral organizations for international development. In 2017, the Center for Global Development (CGD)

fectivecooperation.org/blogs-news-resources/resource-library/.
55. Ibid.
56. OECD/UNDP, *Making Development Co-operation More Effective 2016*.
57. Ibid.
58. Dunning, Rose, and McGillem, Implementing Ownership at USAID and MCC.

analyzed MCC and USAID on their efforts to implement country ownership. The report highlighted that USAID's budget process and spending directives have a great influence on how their programs are implemented. USAID's funding allocation is limited by constituents in Washington, D.C., and often, these spending directives are put forward by Congress toward selected programs or activities of strategic interest to the United States and drive USAID to put U.S. interests ahead of the partner country. Rather than projects answering to the local demands, this shows how USAID's programs put restrictions on fieldworkers and require that priorities align with agency orders without conveying local priorities from the field to Washington D.C.

MCC, on the other hand, has smaller scale projects and key differences that make it more aligned with the principles of demand-driven development than USAID. Its compact process aims to improve country ownership and its specialized focus on economic growth helps it to achieve its objectives.[59] Three guiding principles align the MCC with the principles of demand-driven development:

- Competitive selection: a country is eligible for MCC's assistance if it has reasonable economic and social policies already in place and is governed democratically in order to ensure the positive impact of the aid.[60]
- Country-led implementation: partner countries set up a Millennium Challenge Account (MCA), which is an accountable entity responsible for compact implementation overseen by MCC when a compact is awarded. Monitoring of funds is rigorous and transparent, often through independent fiscal agents. Country-led implementation builds the capacity of local staff in partner countries and increases the accountability of the government and the MCA to its citizens. Both government and civil society have to be taken into account in the decision-making of projects and goal-setting.
- Country-led solutions: countries must do the first step of identifying how they will promote sustainable economic growth and reduce poverty. MCC works in collaboration with the government, the private sector, and civil society as the project has to be maintained by local people when MCC's investment ends.

In terms of leveraging local-level voices, USAID programs have been proactive and responsive to understanding local demands and working with new and diverse partners at the project implementation level. This also reflects USAID's increasing attention to closing the feedback loop between policymakers and local partners, operating more from a bottom-

59. Daniel F. Runde, Aaron Milner, and Jena Santoro, *The Millennium Challenge Corporation in the Trump Era* (Washington, D.C.: CSIS, 2017), https://csis-prod.s3.amazonaws.com/s3fs-public/publication/170223_Runde_MCCTrumpEra_Web.pdf?ZobfNej1iktomhoTcKVaOftQslVopRU_.
60. "Who We Fund," The Millennium Challenge Corporation (MCC), https://www.mcc.gov/who-we-fund.

up approach despite the agency's existing limitations. For example, through USAID's new public procurement policy and co-creation focus, USAID is working to respond to local needs directly by engaging with more diverse development actors.

Progress on Developing a Partnership Approach

A partnership approach to development requires involving local actors, the private sector, government, and other development stakeholders. It also means having the characteristics of transparency and accountability. A partnership approach in the GPEDC monitoring report in 2016 was based on whether partnership policies were in place. Out of 81 countries surveyed, 65 countries had an aid or partnership policy in place and 61 countries had local targets for development cooperation. Developing a partnership approach can also apply to international development partners—i.e., how well are multilateral development banks (MDBs), regional development banks, and bilateral agencies working together in the same space. While this type of partnership is not evaluated by the GPEDC, the Global University Network for Innovation (GUNi) has identified some areas of opportunity and progress related to SDG #17, which focuses on partnership approaches. Multi-stakeholder partnerships have been a top concern as they become the new norm in development and their effectiveness is unknown. Some of the findings in the GUNi report state that partnerships do not foster participation and inclusiveness of marginalized groups and further, these partnerships do not deliver on the outputs they set out for.[61] Whether partnerships include working with local constituents or with international development actors, there is still a lot of improvement to be made on strategic, context-specific partnership approaches. Furthermore, there is a lack of monitoring on how these partnerships are created and what the process looks like from project design to implementation phases.

Progress on Involving Local Actors

The GPEDC monitoring report in 2016 incorporated the private sector and civil society organizations as important development actors. CSOs were evaluated per country based on whether they operate within an environment that maximizes their contribution to development (Table 1, Busan Indicator 2).[62] There is no baseline for this indicator, as it was added in Busan and was not previously measured in the Paris Declaration.[63] The monitoring report looks through the lens of four modules, each with several questions posed to each developing country that evaluate (1) the availability of spaces for multi-stakeholder dialogue on national development policies, (2) CSO development effectiveness in terms of accountability and transparency, (3) official development cooperation with CSOs, (4) and the legal and regulatory environment. One of the questions of the GPEDC 2016 monitoring report revealed that 63 percent of developing countries surveyed have

61. Kaustuv Chakrabarti et al., *Approaches to SDG 17 Partnerships for the Sustainable Development Goals (SDGs)* (Barcelona, Spain: Global University Network for Innovation (GUNi), 2018), 98.
62. OECD/UNDP, *Making Development Co-operation More Effective 2016*.
63. This document sets out the proposed set of indicators, targets, and processes through which implementation of the Busan Partnership for Effective Development Cooperation will be monitored at the global level; http://effectivecooperation.org/wp-content/uploads/2016/03/Indicators_targets_and_process_for_global_monitoring.pdf.

"mechanisms in place to facilitate coordination on programming among CSOs (to optimize impact and avoid duplication) and with other development actors."[64]

Public-private dialogue is also evaluated to measure progress on inclusive partnerships and measures whether dialogue promotes private sector engagement and contributes to development (Table 1, Busan Indicator 3).[65] This indicator is measured on the developing country's private sector and government's willingness to engage, the existence of a potential champion, and the availability of instruments to facilitate dialogue. Each country in the monitoring report is ranked in each category on a scale of 1 to 10 (10 being the strongest score). Of the 59 developing countries surveyed in 2016, 52 percent had a private sector that was willing to engage. Only 30.5 percent of developing countries' governments were willing to engage in public-private dialogues.[66] The Paris Declaration did not put forth indicators on public-private dialogue, and the indicator from Busan can be used as a starting point to measure progress over time.

USAID has been working with the local private sector, local governments, NGOs, and bilateral and multilateral organizations through "co-creation" approaches. Co-creation is a program design approach that brings people together to collaborate in order to achieve a specific outcome. The outcome is defined collectively by multiple stakeholders that have varying degrees of "shared power and decision-making."[67] Through this approach, USAID can help harness demand signals from local stakeholders and determine the value collectively instead of operating from a more supply-driven approach. USAID and other donors are beginning to invest in more non-traditional partners, including local entrepreneurs, who already interact more closely with customers. A project can be more effective by working with local entrepreneurs, for example, because they are more incentivized to deliver to the customer than a donor who often has a strong self-interest at play. In turn, this creates more agency and ownership for local actors and helps USAID move in the direction of the Journey to Self-Reliance. As USAID becomes more receptive to working with new actors, it can collect data that helps understand and respond to what customers want and need. The access to and use of technology help to break down communication barriers too.

As USAID becomes more receptive to working with new actors, it can collect data that helps understand and respond to what customers want and need.

In 2018, USAID launched the "Effective Partnering and Procurement Reform" (EPPR) team, which aims to enhance co-creation work with external and interagency partners through a consultative process.[68] USAID recently released a new procurement strategy with a goal to

64. "2016 Monitoring Data by Country," *Global Partnership for Effective Development Co-operation*, 2016, http://effectivecooperation.org/blogs-news-resources/resource-library/.
65. Ibid., 136.
66. Based on a score of eight and above; OECD/UNDP, *Making Development Co-operation More Effective 2016*: 136.
67. "Discussion Note: Co-Creation Additional Help," *USAID*, April 2017, https://www.usaid.gov/sites/default/files/documents/1868/Co-Creation-Discussion-Note-Final-External-May-31-2017.pdf
68. "Effective Partnering and Procurement Reform," *USAID*, https://www.performance.gov/state/APG_usaid_3.html

shift 10 percent of parts of the budget toward co-creation.[69] USAID is beginning to invest in more innovation, social entrepreneurship, impact investing, and venture models. These models are much more demand-driven and responsive than traditional procurement methods. This is signaling the fact that USAID is beginning to slowly shift toward incorporating more customer voice over time.

Progress on Untying Aid

Grants have certain preconditions attached to them in which allocated funds must be used to purchase goods and services from donor countries' companies—referred to as "tied aid." As mentioned previously, tied aid has proven to be an ineffective use of funds that prevents countries from receiving the best value from aid.[70] Further studies have shown that tied aid creates economic disadvantages that limit opportunities for local suppliers to build local markets.[71] In 1974, the DAC initiated a commitment to untying bilateral development loans and encouraging others to do the same.[72] Untying aid requires that donor countries remove the legal and regulatory barriers to allow developing countries to make their own choices and make firms competitive.[73]

Over the years, donors improved their programs due in part to pressure from the international community. The Paris Declaration, Accra Agenda, and Busan Partnership were steps to encourage the progress of untying aid. Between 1999 and 2008, the DAC reported that the amount of untied bilateral aid increased from 46 percent to 82 percent.[74]

Based on the GPEDC monitoring report in 2016, the share of untied bilateral aid in 2013 and 2014 was 79 percent and 78 percent respectively, suggesting there has been a plateau in recent years on the proportion of untied aid (Figure 5).[75] The United States continues to fall behind in its efforts to untie aid. In 2016, the GPEDC reported that the U.S. share of untied aid was at 62.5 percent, ranking 22nd out of 30 surveyed development partners.[76]

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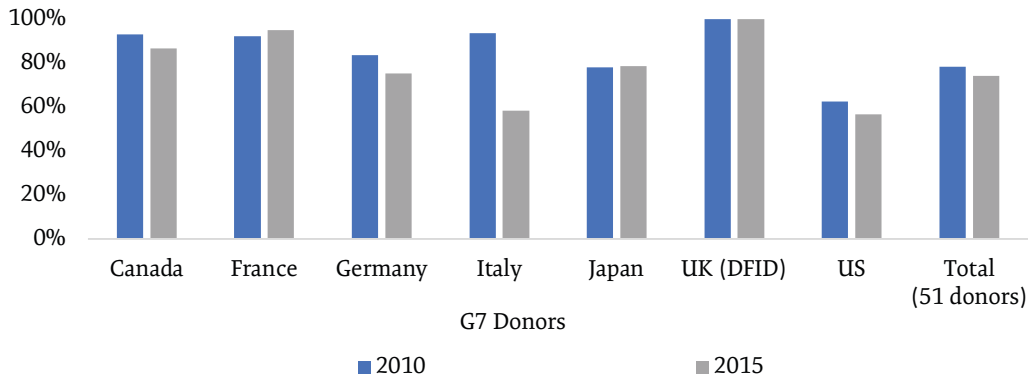
69. "Transforming Our Programs Effective Partnering and Procurement Reform," USAID, September 30, 2019, https://www.usaid.gov/sites/default/files/documents/1868/EPPR_Fact_Sheet_Revised_11.7.pdf.
70. Ibid., 69.
71. Ibid.
72. OECD, *The DAC: 50 Years, 50 Highlights* (Paris, France: OECD, 2010), http://www.oecd.org/dac/46717535.pdf.
73. Ibid., Box 4.
74. Ibid.
75. OECD/UNDP, *Making Development Co-operation More Effective 2016*.
76. Ibid., 161.

Figure 5: United Bilateral Aid as a % of Total Bilateral Foreign Aid (2010 vs. 2015)



Source: Global Partnership for Effective Development Cooperation (GPEDC) 2016[77]

Progress on Increasing Transparency and Accountability

Transparent and publicly available information on the progress of development projects to achieve desired outcomes is critical for developing country partners to hold development partners accountable and vice versa. Transparency is difficult to quantify depending on what information is subject to dissemination in the public domain. The GPEDC has developed a few indicators related to transparency and accountability, which are measured based on criteria such as the timeliness of reporting, the level of information coverage, and how the information is detailed.[78]

According to the three indicators assessed in the GPEDC monitoring rounds, some progress has been made to ensure development partners (donors) and partner countries (recipients) are upholding this principle. Indicator 4 (Table 1) measures whether transparent information on development cooperation is made publicly available. Out of 43 development partners that were assessed, only 35 percent received "good" or "excellent" scores as reported under the International Aid Transparency Initiative. Based on the OECD's Creditor Reporting System, 72 percent of 47 assessed development partners received "good" and "excellent" ratings.[79]

The GPEDC also measures the perceived level of transparency and accountability from developing country partners' perspectives. Out of 81 developing countries surveyed in 2016, 45.7 percent reportedly have partnerships that promote mutual accountability that is strengthened through a review process (Table 1, Indicator 7).[80] In 2011, 59 developing countries were surveyed under this indicator and 42 percent of developing countries had inclusive, transparent, and mutual accountability reviews in place.[81] One of the gaps

77. "2016 Monitoring Data by Country," Global Partnership for Effective Development Co-operation, 2016, http://effectivecooperation.org/blogs-news-resources/resource-library/.
78. Indicators 4, 7, and 8 have information on the indicator construction related to transparency and mutual accountability. See: OECD/UNDP, *Guide to the Monitoring Framework of the Global Partnership*.
79. OECD/UNDP, *Making Development Co-operation More Effective 2016*.
80. Ibid.
81. "2016 Monitoring Data by Country," *Global Partnership for Effective Development Co-operation*, 2016, http://effectivecooperation.org/blogs-news-resources/resource-library/.

of this indicator is that it is unclear what groups within these developing countries are involved in the review process.

Governments are expected to publicly report on their progress toward gender equality and women's empowerment based on budget commitments (Table 1, Indicator 8). This measure helps ensure that developing countries are actively creating opportunities for gender equality. Of the 81 developing countries surveyed in 2016, 47 percent track public allocations and make that information publicly available.[82] For reference, in the 2014 GPEDC monitoring report, only 9 of the 31 developing countries surveyed were publicly tracking that progress.[83]

82. OECD/UNDP, *Making Development Co-operation More Effective 2016*.
83. OECD/UNDP, *Making Development Co-operation More Effective: 2014 Progress Report*, (Paris, France: OECD, 2014), https://effectivecooperation.org/wp-content/uploads/2016/08/2014-GPEDC-Progress-Report..pdf.

4 | Challenges and Recommendations

Despite progress made, there are challenges both on the part of the donor community and recipient countries in implementing a demand-driven approach to development. This section provides an overview of these obstacles together with some recommendations on how to move past these challenges.

For developing countries, the main challenges include a lack of institutional capacity to implement country ownership, especially in low-income and fragile contexts, and clarifying the process of involving local actors in the development process. On the donor side, some of the main obstacles include donor fragmentation with lack of coordination and the tensions inherent in aligning donor self-interest with country ownership.

Challenge 1

LACK OF INSTITUTIONAL CAPACITY TO IMPLEMENT COUNTRY OWNERSHIP

A first challenge in implementing a demand-driven approach to development, particularly in low income and fragile contexts, is the institutional capacity of governments to plan, execute and monitor development plans. The level of development and institutional capacity varies considerably by country. There are 34 countries classified as low income by the World Bank (with income per capita of $995 or less), 47 are lower-middle income (income per capita of $996 - $3,895), and 56 are upper-middle income (income per capita of $3,896 - $12,055).[84] Moreover, the OECD has denoted 58 countries as fragile contexts—that is, states failing to provide basic services to impoverished populations either because they cannot or are unwilling to do so.[85] Fragile countries can present challenges in terms of the capacity of governments to develop and implement country strategies, monitor foreign aid, and evaluate results. Countries also present varying levels of civil society engagement as well as private sector development—two sectors that play an important role in funding and implementing development projects.[86]

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84. "World Bank Country and Lending Groups," The World Bank, https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups.
85. "Glossary of Statistical Terms: Fragile States," OECD, https://stats.oecd.org/glossary/detail.asp?ID=7235; OECD, *States of Fragility 2018* (Paris, France: OECD, 2018): http://www.oecd.org/dac/states-of-fragility-2018-9789264302075-en.htm.
86. Countries are characterized by their level of fragility along a "fragility continuum." Fragility is not a fixed state, rather it ranges between extremely fragile states—unable to establish peace and order—to stable, resilient states where security is strong and expectations between citizens and the state are balanced; Asian Development Bank, *Working Differently in Fragile and Conflict-Affected Situations*, (Mandaluyong City, Philippines: Asian Develop-

Recommendation 1

STRENGTHENING FINANCIAL AND BUDGETING CAPACITY

The institutional capacity of countries is particularly important when it comes to budgeting. One of the commitments outlined in Accra and Busan is to strengthen country ownership by engaging developing country governments in the oversight of the budget process. Development partners are increasingly encouraged to give greater authority to developing country governments to manage development funds. The idea is that, by facilitating budgetary oversight, it will enable greater country ownership, encourage public reporting, and thereby implement greater transparency of public financial resources. However, the lack of predictability and transparency of government spending (including ODA), the inaccuracy of budgetary formulation, and the lack of capacity to deliver on projects limit the quality of developing country financial management.[87] The 2016 GPEDC survey revealed that more than 58 percent of surveyed countries experienced little to no improvement of their budget and public financial management since the monitoring report in 2014 and "23 percent experienced a decline in the quality of public financial management."[88] This demonstrates that some of the surveyed governments may not have the technical capacity or training to properly manage development funds. Domestic institutions and financial accountability need to be strengthened. In this regard, donors can be instrumental in helping countries create and develop public institutions and financial systems that will prevail long after donors leave.[89]

Challenge 2

LACK OF CLARITY IN INVOLVING LOCAL ACTORS IN THE DEVELOPMENT PROCESS

Developing a country strategy or national plan requires incorporating the viewpoint of various local development actors. A second challenge in implementing a demand-driven approach is how to go about involving local development actors in the process. Despite the desire to develop national economic strategies that align with local and national needs, countries can be heavily influenced by donor expectations and may adopt strategies imposed by donors in fear of compromising the long-term development goals or losing funding without a suitable alternative.

The GPEDC monitoring survey in 2016 found that "almost 90 percent of [developing country] governments consult CSOs on national development policy."[90] This shows collaboration among the national and local levels. However, who are the "local partners" or "local actors and/or stakeholders"? Who is included beyond CSOs? (NGOs? Indigenous groups? Local governments?) What does the consultation process look like? What CSOs are involved and do they work closely with the government? How are those decisions made between governments and CSOs? To what extent do the priorities of each participant weigh in? Can their representatives speak to community-level priorities in every part of the country? These are all important points to consider in the consultation process.

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ment Bank, 2012): 12, https://www.adb.org/sites/default/files/institutional-document/33774/files/working-differently-conflict-affected-situations.pdf.

87. OECD/UNDP, *Making Development Co-operation More Effective 2016*.
88. Ibid., 61.
89. Ibid.
90. Ibid.

In addition, it is difficult to gauge the level of involvement of local partners. There is no set standard across all development partners that defines engagement or dialogue despite the fact that some organizations have attempted to design consultation frameworks that can guide these interactions. Does involving local partners simply mean consulting local stakeholders in the design phase? Does it mean incorporating their demands into national strategies? These are unanswered and important questions that the GPEDC can help to address in its reporting mechanisms. Furthermore, there is a dissidence between the perceived level of consultation between donors and local stakeholders (see Box 4).

BOX 4: MONITORING ALBANIA'S CSO ENGAGEMENT

Albania is a good example that represents progress on standardizing donor engagement with local partners yet equally illustrates the challenges to such standardization and offers valuable lessons for low-income countries.

Albania has made significant improvements in terms of consultation between the government and CSOs, improving transparency and reporting, minimizing corruption, and building a strong development model. Albania is a low middle-income country and has only recently passed laws related to improved collaboration between the government and CSOs. Albania's progress is partly driven by its incentive for EU integration.

Monitoring the growth and involvement of civil society in policymaking in Albania remains a challenge. Reports that capture progress or lack thereof offer conflicting results. One Albanian organization, Partners Albania, in 2016 cited registration and re-registration of CSOs as a key barrier, emphasizing that it was a centralized and lengthy process with high cost to the organizations.[91] However, the Global Partnership monitor results in 2016 indicated that the "legal and regulatory environment was enabling for CSO formation, registration, and operation" in Albania.[92] In the same reports, Partners Albania identified that CSOs were "not effectively consulted and involved in policy and decision-making processes."[93] The 2016 Global Partnership results reflected a different sentiment, citing that Albania's "CSO-initiated coordination processes exist to facilitate consolidated and inclusive CSO representation in policy dialogue."[94]

Furthermore, there are additional challenges to creating an enabling environment for local participation in societies that are encumbered by centralized power. In these situations, marginalized or impoverished groups may not be able to voice their demands and risk being left out.[95] The GPEDC survey found that 13 recipient countries out of 55 respondents

91. Partners Albania, *Monitoring Matrix on Enabling Environment for Civil Society Development: Country Report for Albania 2016*, (Tirana, Albania: Partners Albania, 2016), http://partnersalbania.org/publication/monitoring-matrix-on-enabling-environment-for-civil-society-development-country-report-for-albania-2/.
92. OECD/UNDP, *Making Development Co-operation More Effective 2016*.
93. Partners Albania, *Monitoring Matrix 2016*.
94. OECD/UNDP, *Making Development Co-operation More Effective 2016*.
95. David Jordhus-Lier, Marit Haug, and Hari Regmi, *Demand-driven governance: An analysis of the interventions*

had legal and regulatory environments that marginalized certain groups.[96] So what can development actors do to engage local participation in a systematic and productive way? When coordinating across a variety of organizations, governments, and other stakeholders, the priorities are not always the same, and it is rare that everyone's interests will be met. How do development partners decide whom to listen to?

Recommendation 2

MAPPING OF LOCAL ACTORS AND STREAMLINING CONSULTATIONS PROCESSES

A mapping of local stakeholders is necessary to understand the political dynamics of a community, recognize the leaders, and ensure that local actors are equally represented to prevent marginalization. Development partners (specifically bilateral and multilateral donors) need better mechanisms to identify and build relationships with local stakeholders; specifically, with regard to identifying locally legitimate partners in fragile and conflict-affected states.[97] In a time where many developing countries are riddled with conflict and violence, there has to be a clear sense of which local actors are most credible and can eventually take ownership of development projects.

A mapping of local stakeholders is necessary to understand the political dynamics of a community, recognize the leaders, and ensure that local actors are equally represented to prevent marginalization.

Across the various development donors, there needs to be a consensus about the structure and ways in which they coordinate and consult with country partners. Who has the role of convening power and how will consultations be structured? Who sits at the table when deciding collectively on a national agenda or strategy?

Such questions have been addressed by organizations like the World Bank, USAID, Australian Aid (AusAid), and the United Kingdom's Department for International Development (DfiD)—all of whom have structured consultation guidelines for engagement with CSOs. CSO engagement has improved overall in the last couple of decades, but there is still a lack of understanding of how effective these partnerships are to development outcomes. The GPEDC monitor has a breakdown of CSO engagement and contribution to development by country but does not measure the level of inclusiveness and commitment of the donors, failing to measure their performance in this engagement and consultation process.

There is no doubt that consultations can resolve some of the challenges CSOs face and can facilitate better communication and mutual understanding. However, the lack of reporting

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of international aid agencies (Oslo, Norway: Norwegian Institute for Urban and Regional Research, 2009), http://www.operationspaix.net/DATA/DOCUMENT/6274~v~Demand-Driven_Governance__An_Analysis_of_the_Interventions_of_International_Aid_Agencies__Case_Study_Nepal.pdf

96. OECD/UNDP, *Making Development Co-operation More Effective 2016*.

97. Melissa Dalton, Erol Yayboke, MacKenzie Hammond, Hijab Shah, and Asya Akca, "Pursuing Effective and Conflict-Aware Stabilization," CSIS, January 2019, https://www.csis.org/analysis/pursuing-effective-and-conflict-aware-stabilization-framing-and-constructing-roadmap.

on the engagement with CSOs limits the accountability of donors to the demands and interests identified in the consultation process. While frameworks can help organize the process of consultation, there needs to be better reporting mechanisms on the commitment to those frameworks, the perceived benefits of the consultations from both sides, how priorities are set, and how the roles are divided in project implementation. Oftentimes, the decision-making systems depend on the political process, and democratic institutions offer more opportunities to create inclusion and better representation of stakeholders. In non-democratic societies, trying to create a parallel consultation mechanism can potentially create the appearance rather than the substance of consultation.

Challenge 3

PARTNERING WITH MULTIPLE AND FRAGMENTED DONORS

A third challenge in implementing a demand-driven approach to development is that donors are fragmented and oftentimes do not coordinate processes, making it difficult for countries to implement plans and forge lasting partnerships. There is little systematic interaction between multilateral partners and coordination to minimize duplicative activities or strategize effectively and little effort to achieve consensus on priorities and responsibilities.

Most developed countries often have more than one development organization that provides funding, technical assistance, and broad or selective programming to serve different needs, but that often increases fragmentation and/or overlap projects. For example, USAID is the premier development agency in the United States, but other U.S. government organizations provide complementary support, including the MCC, the Overseas Private Investment Corporation (OPIC), and the U.S. Trade and Development Agency (USTDA). In conflict-affected environments, USAID is often supported by the Department of State and the Department of Defense, both of which can overlap with USAID operations. The emersion of these new players in the last several decades has led to policy incoherence, lack of integration across programs, conflicts over roles and responsibilities, and, consequently, an increase in the costs of implementing development programs, slowed implementation, and reduced impact.[98] However, there are new interagency efforts to improve collaboration across the State Department, USAID, and the Department of Defense, specifically related to stabilization efforts.[99]

In some cases, development actors can have duplicative activities or can undermine each other's work if not operating in a coordinated and cohesive manner. Development partners can also overburden developing countries by overlooking the absorptive capacity and demand for development programs. These countries can work with several agencies channeled through one donor. Often, the World Bank, regional development banks, and bilateral agencies have overlapping work in similar sectors and locations. Their work could be more cost-efficient and produce better results if they collaborated and if each development partner utilized their unique comparative advantages to accomplish a particular project. Instead, these organizations have increased in size and scope without organizational structure and without achieving the intended impact.

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98. Brian J. Atwood, M. Peter McPherson and Andrew Natsios, "Arrested Development: Making Foreign Aid a More Effective Tool," *Foreign Affairs* 87, no. 6 (December 2008): 123-132.
99. Dalton, et al., "Pursuing Effective and Conflict-Aware Stabilization."

Recommendation 3

IMPROVING DONOR COORDINATION

When donor priorities overlap and their communication, collaboration, and collectivization are fragmented at a global, country, or sectoral level, it hinders the effectiveness of aid. The Paris Declaration emphasizes that dividing labor and sharing the burden can simplify procedures, reduce transaction costs, increase the efficiency of programs, and increase the transparency of progress toward collective goals.[100]

When donor priorities overlap and their communication, collaboration, and collectivization are fragmented at a global, country, or sectoral level, it hinders the effectiveness of aid.

Likewise, when aid is fragmented, it often reduces its effectiveness and can undermine other operations, or worse, overburden the partner country. There is still an opportunity for donors to improve their division of labor without reducing valuable aid to these countries: the Paris Declaration outlines the importance of identifying comparative advantages, areas of specialization, and delegating cooperation when necessary. [101] However, there is a lack of commitment and deliberate institutional reorganization to address this. The MDBs have opportunities to coordinate better, especially with respect to financial support areas and programmatic overlap.[102] The MDBs have been successful at establishing standards and best practices and coming together to address major global challenges and make a commitment to them. MDBs can address these challenges through collective action by developing strategies or joint project evaluations together.[103] MDBs can also coordinate better by building local capacity, simplifying operations, and being more active and flexible on the ground in fragile contexts—too often their objectives are dictated by headquarters rather than responding to local needs.[104]

If multilateral and bilateral donors were to collect data on the behavior and response to project implementation, this would give donors the opportunity to listen to local demands, reflect, and adjust as needed. This data would enable greater local ownership and help donors better map the needs for a more coordinated division of labor.

Challenge 4

RECONCILING COUNTRY OWNERSHIP WITH DONOR SELF-INTEREST

The fourth challenge for demand-driven development is how to reconcile donors' self-interest with a developing country's needs. Donors tend to align first with their

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100. OECD, *The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action* (Paris, France: OECD, 2008): 21, http://www.oecd.org/dac/effectiveness/34428351.pdf.
101. Working Party on Aid Effectiveness, "Aid Effectiveness: A Progress Report on Implementing the Paris Declaration," (paper presented at Third High-Level Forum on Aid Effectiveness, Accra, Ghana, September 2-4, 2008), http://siteresources.worldbank.org/ACCRAEXT/Resources/Progress_Report-Full-EN.pdf.
102. Romina Bundura, "Toward a Shareholder Consensus on the MDB System" CSIS, December 7, 2017, https://www.csis.org/analysis/toward-shareholder-consensus-mdb-system.
103. Ibid.
104. Ibid.

own interests and priorities and second with local stakeholders' priorities. USAID, for example, develops Country Development Cooperation Strategies (CDCS) for each mission. The CDCS is grounded in the principle of consulting with local stakeholders; however, the CDCS also requires that missions reflect agency priorities, which almost always take precedence. Ultimately, if priorities do not align, missions are forced to reconcile differences, yet U.S. interests are almost always at the forefront.[105] There are few exceptions in which missions can overlook the priorities of the agency in Washington, D.C. In 2016, 16 out of 18 mission directors responded to a survey that U.S. government priorities (i.e., congressional directives and the administration) play a critical role in deciding mission programs and operations.[106]

Even when priorities align and missions are set on an agenda in fragile and conflict-affected states, it is likely that over the duration of the five-year strategy the in-country context will shift and demand a change in programmatic response. The challenge for organizations that set these five-year strategies is that there is little flexibility built into the program to shift the focus toward more demanding objectives, even when an immediate response is required. If donors are unable to shift their focus to accommodate emergency or short-term relief operations, it can jeopardize long-term development objectives.[107]

When these priorities are set ahead of a mission entering a country, it can create a problematic undertone in discussions with partner countries and undermine the mission itself if those priorities are in conflict or not aligned with one another.[108] However, unaligned priorities are not always the case; there are several examples in which the United States has responded to significant demand, such as energy supply in African countries through Power Africa.[109]

Recommendation 4

ALIGNING PRIORITIES AND BUILDING FLEXIBILITY INTO PROGRAMS

Developing countries need to continue developing a vision and strategy for development, and donors must then respond with financial support to achieve those priorities. This requires certain flexibility within the elements of the development financing infrastructure, especially in the United States, where there are limitations to how flexible USAID can be in meeting local demands. The United States and others need to adapt to the changing aspirations and needs of developing countries, especially as they increase private investment and their domestic revenue.

In Kenya, for example, President Kenyatta unveiled that two of the top priorities in his reelection campaign were to provide free secondary education and better healthcare coverage, especially for mothers after maternity.[110] There are many needs to address in the

105. Dunning, Rose, and McGillem, *Implementing Ownership at USAID and MCC*.
106. Ibid., 13.
107. Ibid.
108. Ibid.
109. "Power Africa," USAID, https://www.usaid.gov/powerafrica.
110. "President Kenyatta Unveils Key Planks Of 2017 Campaign," Office of the President of Kenya, April 1, 2019, http://www.president.go.ke/2017/06/03/president-kenyatta-unveils-key-planks-of-2017-campaign/; Patrik Lang'at, "Here are some of Uhuru Kenyatta's campaign promises," *Daily Nation*, November 24, 2017, https://www.nation.co.ke/news/politics/Uhuru-Kenyatta-campaign-promises/1064-4200828-4uqdyqz/index.html.

coming years that Kenya and other countries like it will need support with beyond health and education. Donors need to recognize and act on these changes without spreading themselves too thinly across multiple development-related issues. In order to act on these principles outlined in this paper, the United States (specifically USAID) and other bilateral agencies will need to find ways to build in flexibility and adaptation mechanisms. This is especially necessary in fragile and conflict-affected states where conflicts change rapidly and are often unpredictable in their course of development. As countries develop, they will need more options from the United States and other donors to partner on their own goals.

President Kenyatta unveiled that two of the top priorities in his reelection campaign were to provide free secondary education and better healthcare coverage.

USAID needs more opportunities to leverage its own voice across the U.S. government and respond to foreign aid demands while preserving U.S. economic and national security interests. The United States should leverage the developing country partner's voice and make it an integral part of decision-making. USAID could serve as the intermediary to communicate demands on the ground to Congress by utilizing new technological platforms that directly connect high-level policymakers with local voices. In order to bridge the gap that exists between high-level policymaking, implementers and national/local partners or customers, USAID will need to utilize data from its partner countries and package it in a way that can be communicated to Congress. As donors become more responsive to country demands, it will be important in cases like the United States to rethink how budgets are limiting the responsiveness and flexibility of USAID.

In this context, as Congress begins to think about budgets and the way the United States currently allocates aid to different accounts, there will be an increasing need to move away from siloed sectoral spending. In reality, sectors are intertwined and integrated. By reframing the strategic idea away from basic sectoral outcomes, the United States will be able to respond to the demand itself.

Operationalizing the concept of demand-driven development is complex. The principles involve certain challenges both for donors and recipients alike. A demand-driven model of development involves giving greater decision-making freedom to developing countries. But it also requires commitment, responsibility, and accountability on the part of involved government entities.

To ensure that low-income countries, particularly fragile and conflict-affected states, make progress, the United States and other donors will need to embrace new approaches and instruments to tackle persisting challenges. Forging strong partnerships between donors and recipients will be essential and will require building mutual trust and respect to align their priorities and craft successful development policy.

5 | Conclusion

The demand-driven approach to development has emerged from decades of lessons learned and best practices in development policy and programming to ensure development partners are maximizing their resources to achieve sustainable development goals. Through this approach, donors can begin to meet developing countries where they are at today and leverage new resources to tackle the development challenges of tomorrow.

The realities of the development landscape today have changed drastically from 80 years ago; development finance is being deployed in new, innovative ways to confront forthcoming challenges. To match these new demands and increase the resiliency of developing countries, development partners must become more flexible and adaptable to rapidly changing circumstances.

If the United States fails to adjust its approach to foreign assistance, it will miss out on opportunities to solve problems, strengthen alliances, promote peace and stability, and create new markets for U.S. goods. Tailoring U.S. soft power to maximize its influence, facilitate stability, create opportunities, and manage risks is increasingly important as more resource options become available to developing country partners. Rethinking how the United States engages with developing countries is going to be a long-overdue shift in the political culture of the United States and other Western donors. Improving those relationships with developing countries can be realized in the context of demand-driven development.

Annex 1 | Who Provides Foreign Aid?

Foreign aid (or ODA) is concessional financing (i.e., grants, soft loans, and technical assistance) provided by governments through bilateral and multilateral donors aimed at improving the economic development and welfare of developing countries. The OECD Development Assistance Committee (DAC) —founded in 1961—is the forum of the largest providers of aid, which includes 30 members. There were more than 150 countries with per capita incomes below USD 12,276 in 2010 that received ODA.[111] Among this list of countries, there are countries such as Turkey and Thailand that both provide and receive aid.

There are international non-governmental actors (such as the Gates Foundation, Oxfam, Open Society Foundation, and the Hewlett Foundation) that also give money to finance developing countries' needs.

Foreign aid is channeled via direct budget support or project support. Donors provide aid either through the financing of specific projects ("project support"), which often involves direct donor participation in the design and implementation. Aid can be given to donor partners, host country governments, or host country partners. Budget support means donors provide aid to the recipient government's budget, sometimes imposing conditions on how resources should be allocated.[112]

The main development actors that provide these grants are multilateral development banks (MDBs), regional development banks, and bilateral donors.

- MDBs primarily support public-sector finance in developing countries and channel money through governments via budget support, but, in some cases, they provide technical advice. MDBs and regional development banks include the World Bank, Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IDB), and others.[113]

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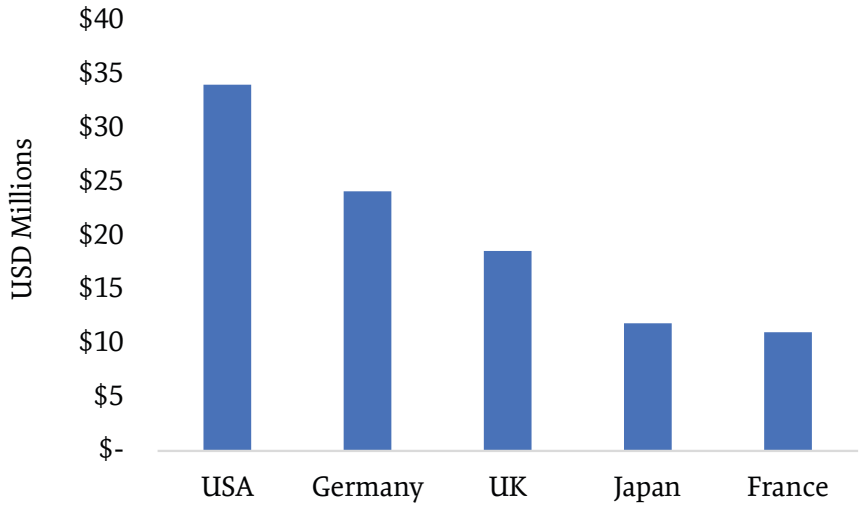
111. "Development Assistance Committee (DAC)," OECD, http://www.oecd.org/dac/developmentassistancecommitteedac.htm; "Official Development Assistance – Definition and Coverage," OECD, http://www.oecd.org/dac/stats/officialdevelopmentassistancedefinitionandcoverage.htm; "Net ODA," OECD, https://data.oecd.org/oda/net-oda.htm.
112. Tito Cordella and Giovanni DellíAriccia, "Budget Support versus Project Support," IMF, November 16, 2001, https://www.imf.org/external/pubs/ft/staffp/2001/00-00/pdf/tcgd.pdf.
113. Romina Bandura, "Rethinking Private Capital for Development," CSIS, December 14, 2017, https://www.csis.org/analysis/rethinking-private-capital-development.

- According to OECD DAC figures, the top five major bilateral donors include the United States, Germany, the United Kingdom, Japan, and France (Figure 6).

Figure 6: Net ODA, 2017 - Top 5 Bilateral Donors



Source: OECD[114]

USA – USAID: The United States Agency for International Development (USAID) is a bilateral donor agency that focuses primarily on project support, rather than being a funding-based organization. Funding is allocated through projects primarily involving grants and contracts.[115]

USA – MCC: The Millennium Challenge Corporation (MCC) is an independent foreign aid agency. The organization's primary development finance instruments include two types of grants: compacts (large grants for eligible countries) and threshold programs (small grants for ineligible countries to support institutional and financial policy reforms).[116] The compacts are more involved, as they focus on project design and implementation.

Germany – GIZ: The German Corporation for International Cooperation (GIZ) mainly conducts technical projects commissioned to it by the Federal Ministry for Economic Cooperation and Development and also collaborates with private sector partners, other countries' national agencies, and multilateral organizations.[117] GIZ's main competence is capacity development. Sub-Saharan Africa is the agency's main regional priority, but it operates in other regions too.

114. OECD, "Total Flows by Donor," 2017, https://stats.oecd.org/.
115. See USAID Grant and Contract Process: https://www.usaid.gov/work-usaid/get-grant-or-contract/grant-and-contract-process.
116. Daniel F. Runde, *Sharing Risk in a World of Dangers and Opportunities* (Washington, D.C.: CSIS, December 2011), https://www.csis.org/analysis/sharing-risk-world-dangers-and-opportunities ; See: https://www.mcc.gov/about.
117. "About GIZ," The German Corporation for International Cooperation (GIZ), https://www.giz.de/en/worldwide/germany.html.

United Kingdom – DFID: The Department for International Development (DfID) is the UK's bilateral donor agency for development. It provides a variety of financial options for private sector development (primarily grants, contracts, and loans) and mostly works as a research and project-based organization. The organization's operations include risk screening, environmental assessment, and policy guidance, among others.

Japan – JICA: The Japanese International Cooperation Agency (JICA) is Japan's bilateral donor agency for development, which provides technical cooperation, loans, and grants to developing countries in Africa, the Middle East, South America, and Asia. It operates with its partners through technical assistance, project implementation, strengthening governance and resilience to diseases, etc.[118]

France – AFD: The French Development Agency (AFD) is France's public development bank, and it commits financing and technical assistance to projects.[119] It is recognized as a financing company by the European Central Bank as of 2017. AFD operates in Africa, prominently in former French colonies, and also throughout Asia and the Pacific, Latin America and the Caribbean, and the Middle East. It is not tied to a single ministry; instead, its board is comprised of 16 members appointed by decree and representatives from the Ministry of the Economy, Industry and Digital Affairs, Ministry of Foreign Affairs and International Development, Ministry of the Interior, and Ministry of Overseas France.

118. "Types of Assistance," The Japan International Cooperation Agency (JICA), https://www.jica.go.jp/english/our_work/types_of_assistance/index.html.
119. "About Us," The Agence Française de Développement (AFD), https://www.afd.fr/en.

Annex 2 | An Abbreviated Chronology of Demand-Driven Development (1940-2000)

The emergence of foreign aid (1940s-1950s)

The dawn of the U.S. foreign assistance program rose from post-World War II devastation throughout Europe.[120] Between 1945 and 1947, the United States provided financial aid and humanitarian assistance to European countries in dire situations. In 1948, the U.S.-led Marshall Plan was introduced as a comprehensive plan to restore and rebuild European countries devastated by the war and emphasized that the joint recovery effort should give program ownership to the Europeans.[121]

It could be argued that this is one of the first iterations by the United States of country ownership, as the European countries were required to develop a proposal to be approved by the United States before concluding a bilateral agreement, creating a stronger sense of partnership.[122] Ultimately, what began as a European restoration plan was the beginning of institutionalizing U.S. foreign policy initiatives. The participating European countries jointly created the Organization for European Economic Cooperation (OEEC)—commonly known today as the Organization for Economic Cooperation and Development (OECD)—to uphold mutual responsibility and cohesion, the founding principles of the Marshall Plan.[123]

Moreover, in 1944, the Bretton Woods Agreement outlined an impactful series of changes to international financial order. It created two organizations, the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD), to monitor the international monetary system and eradicate poverty, respectively.[124] The conference negotiated the aims and mechanisms of

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120. "History of the Marshall Plan," The George C. Marshall Foundation, http://marshallfoundation.org/marshall/the-marshall-plan/history-marshall-plan/.
121. "Marshall Plan, 1948," U.S. Department of State Office of the Historian, https://history.state.gov/milestones/1945-1952/marshall-plan.
122. "The Marshall Plan: Design, Accomplishments, and Significance," Congressional Research Service, January 18, 2018, https://www.everycrsreport.com/reports/R45079.html.
123. Curt Tarnoff, "The Marshall Plan: Design, Accomplishments, and Relevance to the Present," Congressional Research Service, January 6, 1997, https://fas.org/sgp/crs/row/97-62.pdf.
124. Kimberly Amadeo, "Bretton Woods System and 1944 Agreement," *The Balance*, January 10, 2018, https://

the organizations and the envisioned policy changes to establish concrete plans for international economic stability.[125] These multilateral institutions (the World Bank, IMF, and UN) have become the leaders and conveners of international dialogue and agreements that form the basic principles and standards of development practices, including those of demand-driven development.

From the Marshall Plan to the creation of the OECD (1960s-1970s)

ALIGNING DONOR PRIORITIES AND COUNTRY OWNERSHIP

The success of the Marshall Plan in Europe after World War II demonstrated why foreign aid should be at the forefront of U.S. foreign policy, thus ultimately leading to the creation of USAID in 1961.[126] The Marshall Plan, however, promoted European investment in U.S. products and thus did not create investments locally, essentially consisting in tied aid.

1961 was also the year the Development Assistance Committee (DAC), the development branch of the OECD, was created.[127] The DAC adopted a Resolution of the Common Aid Effort in 1963, which highlights that aid must be adapted to the circumstances of each country.[128] This was the first attempt to urge development partners to align country priorities with local needs—an element of country ownership. This framework helped establish a channel specifically for official development assistance (ODA) in 1969. ODA is concessional flows provided by governments and international organizations, which are distributed to developing countries and promote economic development and welfare.

In the early 1970s, one of the first agreements was made on the status of tied aid and required that ODA flows must have a grant element of at least 25 percent.[129] This grant element requirement is one of the first actions to prevent donors from requiring developing countries to spend their capital on goods and services in the donor country. In later years, research on tied aid revealed the long-term consequences for developing countries, and more concerted efforts were put toward untying aid.

Towards a new global development agenda (1980s-1990s)

LESSONS LEARNED FROM MACROECONOMIC REFORMS

In the 1980s, international foreign assistance was challenged by macroeconomic imbalances created by the debt crisis in developing countries. This led many financial development institutions, like the World Bank, to reorganize their debt servicing activities and policies.[130] Meanwhile, bilateral development agencies promoted economic

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www.thebalance.com/bretton-woods-system-and-1944-agreement-3306133.

125. "The Bretton Woods Conference, 1944," U.S. Department of State Archives, https://2001-2009.state.gov/r/pa/ho/time/wwii/98681.htm.

126. See USAID History: https://www.usaid.gov/who-we-are/usaid-history.

127. See History of OECD, http://www.oecd.org/about/history/; OECD, http://www.oecd.org/general/organisationforeuropeaneconomicco-operation.htm.

128. Helmut Führer, *The Story of Official Development Assistance: A History of the Development Assistance Committee and the Development Cooperation Directorate in Dates, Names, and Figures*, (Paris, France: OECD, 1996), http://www.oecd.org/dac/1896816.pdf.

129. Clay, Geddes, and Natali, *Untying Aid: Is it working?*

130. See World Bank History: http://www.worldbank.org/en/about/archives/history.

stabilization efforts that focused attention to structural policies in developing countries.[131] Many of these activities and policies at that time were provided on a conditional basis, often favoring devalued currency and high taxes.[132]

The conditions that organizations like the IMF and World Bank introduced through stabilization and structural adjustment programs (SAPs) were largely shaped by the "Washington Consensus." The Washington Consensus was a set of 10 reforms created to update Latin America's economic policies in the face of economic crisis aiming to lessen dependence on immediate financial support by elevating the role of the free market.[133] Even though these policies were perceived to gain broad acceptance by U.S. and international institutions, they would later prove to be the epicenter of significant controversy as they did not achieve the desired economic outcomes and led to a disappointing performance in many countries. [134]

In response to growing recognition of the failure of the SAPs, there was a fundamental shift away from binding donor proscriptions toward emphasizing national government ownership. The Washington Consensus was slowly replaced by principles that focused on measures for aid effectiveness. The DAC adopted a set of guiding principles in 1986 that included promoting strategies to give recipient governments central responsibility of coordinating aid.[135]

In the 1990s, the DAC adopted the Statement on Development Partnerships in the New Global Context to improve commitment and give more responsibility to developing countries to manage their development strategies.[136] A survey by the DAC revealed the importance of reaching beyond the central government, which came to include civil society and the private sector, contrary to what had been done in the 1980s.[137]

In the late 1990s, the World Bank moved towards an approach that was intended to be more country-driven by introducing country-oriented poverty reduction strategies in 1999 (or commonly known as PRSPs). The PRSPs were created in reaction to the opposition and criticism of the SAPs. The PRSPs aimed at enabling partner countries to take ownership and plan their own strategies; however, several critiques arose regarding the Bank's management and role in the process. One of the critiques of the PRSPs is that they did not effectively engage with civil society and government, thereby raising the concern that the PRSPs were driven by donor financing abilities rather than by national priorities.[138] The PRSP initiative had several objectives that conflicted with one another. One example was

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131. See USAID History: https://www.usaid.gov/who-we-are/usaid-history.
132. Philip Arestis, "Washington Consensus and Financial Liberalization," *Journal of Post Keynesian Economics* 27, no. 2 (Winter, 2004-2005): 251-271, https://www.jstor.org/stable/pdf/4538923.pdf?refreqid=excelsior%3A0ff2b-38c3af679bdabbe2cd3044807f4
133. Prateek Agarwal, "The Washington Consensus," *Intelligent Economist*, April 23, 2018, https://www.intelligenteconomist.com/washington-consensus/.
134. John Williamson, "A Short History of the Washington Consensus," (paper presented at conference "From the Washington Consensus towards a new Global Governance," Barcelona, Spain, September 24-25, 2004), https://piie.com/publications/papers/williamson0904-2.pdf.
135. OECD, *The DAC: 50 Years, 50 Highlights*.
136. See Highlight 27: Ibid.
137. Ibid.
138. "Official report confirms PRSP criticisms," The Bretton Woods Project, November 17, 2003, https://www.brettonwoodsproject.org/2003/11/art-27505/.

the tension between conditionality and the principle of country ownership.[139] The process was created with the intention of reducing policy conditions, yet it has been scrutinized for increasing them.[140]

The end of the century marked a pivotal transition that reflected on lessons learned from the PRSPs and the Washington Consensus and sparked a newfound agenda toward country ownership, partnership, and mutual accountability which would soon be reflected in the new millennium.[141]

139. Ibid.
140. Hilde Selbervik, *Aid and conditionality. The role of the bilateral donor: A case study of Norwegian-Tanzanian aid relationship* (Norway: Chr. Michelsen Institute, 1999).
141. Alina Rocha Menocal, "From the Washington Consensus to a new paradigm of effective aid?" Overseas Development Institute (ODI), June 13, 2011, https://www.odi.org/sites/odi.org.uk/files/odi-assets/events-presentations/932.pdf

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