# Aid Fragmentation and Proliferation: Can Donors Improve the Delivery of Climate Finance?

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## 1 Introduction

Most international agreements addressing development and social issues are set out in non-legally binding form which, in general, lacks financial mechanisms to assist developing country signatories to meet agreed objectives. Any financial assistance necessary for achieving goals set out in such instruments is typically provided through bilateral Official Development Assistance (ODA) and multilateral financial institutions.

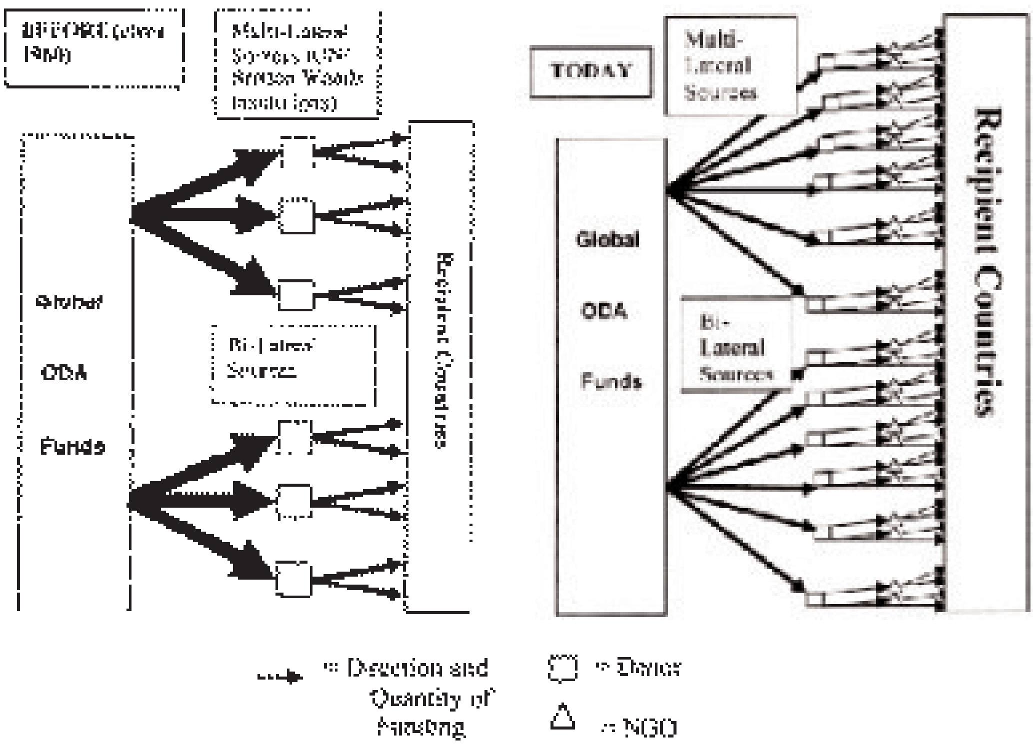
The international climate change regime established by the 1992 UN Framework Convention on Climate Change (UNFCCC) and its 1997 Kyoto Protocol, by contrast, boasts a complex and highly innovative financial architecture. This architecture is composed of two elements: (1) legal binding commitments mandating Organisation for Economic Cooperation and Development (OECD) countries (known in the UNFCCC as Annex II Parties) to provide "new and additional" financial and technological resources to developing countries to fulfil treaty commitments relating to reporting and mitigation and also to assist developing countries most at risk from the impacts of climate change meet the costs of adaptation to climate change; and (2) an institutional machinery to deliver such financial and technological assistance to developing countries. The core of this machinery is a multilaterally governed financial mechanism, operated by the Global Environment Facility (GEF) in accordance with the political guidance of the Conference of the Parties to the UNFCCC. The provision of financial and technological resources through bilateral and other multilateral channels is also permitted by the Convention.

As climate impacts increase, there are likely to be more calls on donor resources to address climate change impacts through both mitigation and adaptation strategies (see Huq and Reid, this *Bulletin*). Although many factors other than aid will determine the availability of resources for the take up of these options by developing countries (such as opening up trade to developing countries and reducing the burden of debt), for many countries public financing will remain an important source of assistance.

However, global trends in ODA funding now indicate a stagnation or decline from earlier levels that appears unlikely to be reversed (see Bezanson, this *Bulletin*). This suggests much more policy attention will need to be paid to ensure that existing flows, whether under the Convention's financial mechanism or otherwise, are being used as effectively as possible. This article focuses on how donors could improve the delivery of climate aid. Increased use of private sector finance for adaptation and mitigation options is discussed by Hamilton in her article on insurance and the financial services sector and by Humphrey and Leach and Leach in their articles on the Clean Development Mechanisms, in this *Bulletin*.

This article begins by describing the main trends in the size of aid flows and the structure of disbursement, focusing particularly on the problems associated with aid proliferation and fragmentation. For those unfamiliar with the operation of the Convention's financial machinery, the next section provides an overview of the climate change regime financial architecture, including a brief overview of its history and reforms in response to criticisms.

**Figure 1: (a) ODA funding patterns in the 1960s; (b) Current (2004) ODA funding patterns**




The article then examines whether the financial mechanism could enhance the effectiveness of delivery of ODA on climate issues, highlighting in particular the significance of large, parallel flows of bilateral ODA for climate change programmes. The concluding section examines the scope for improvements in climate change aid and makes some suggestions that may be useful in future policy discussions.

## 2 Current trends in development finance

Over the 1990s and into 2000, governments in the developed world collectively cut aid budgets to their lowest levels in real terms with five of the G-7 donors: USA, Italy, Germany, France and Japan, failing to reverse a long-term decline in aid (Watkins and Amadi 2003). The additional financial resources offered by developed countries on the eve of the Finance for Development conference in Monterrey were welcome, but did not match the necessary additional resources needed to achieve internationally agreed goals as set out in the Millennium Development Goals (MDGs). The amount of resources needed to realise the MDGs is, according to Oxfam, an additional US$100 billion a year in aid (Watkins and Amadi 2003: 326). This sounds like a lot, but to put things in perspective, according to the Congressional Budget Office, a non-partisan body set up by the US Congress, the war and occupation of Iraq by 130,000 US troops cost about US$4–5 billion (£2.2–2.7 billion) per month, or US$48–60 billion per year (Congressional Budget Office 2004). With many experts now believing that troops at this level, and hence military expenditures, may be needed for the next 3–5 years, it is likely that the costs of the Iraq will be much larger than anticipated.

This article does not focus on the political constraints limiting aid flows to their current, inadequate levels, but focuses instead on improving the efficiency of aid flows, because these issues need to be addressed now and even more so if aid budgets rise in response to political pressures. As pointed out by the most recent World Development Report, the way in which donors provide aid matters a lot (World Bank 2004: 203). The Report describes two worrying trends in patterns of bilateral and multilateral ODA: (1) the inordinate increase in ODA donors and projects across developing countries, resulting in proliferation of aid (World Bank 2004: Ch. 11) and (2) a false belief in the increased efficiency of providing aid to local or non-governmental service providers, as opposed to governments resulting in fragmentation of aid in recipient countries.

To a large extent however, the prevalence of direct project implementation outside the control of formal governmental channels, which leads to the fragmentation of aid at the recipient end, is a direct result of the proliferation of aid by donors. Proliferation is a creeping, structural change in ODA finance that has occurred over the last 30 years, understood as the excessive multiplication of sources and channels of development aid around the world (Acharya *et al.* 2004; Knack and Rahman 2003). Fragmentation is a measure of the extent to which proliferation has led to the multiplication of sources of aid within an individual recipient country. It is helpful to visualise the trend of proliferation and of fragmentation diagrammatically:

Figure 1a is a rough representation of ODA funding patterns in the 1960s. Flows originate from relatively few bilateral and multilateral sources and are disbursed through few channels directly to recipients in large quantities to governments. Figure 1b shows how the proliferation of bilateral and multilateral donors (sources) has today resulted in many more aid channels, often flowing via non-governmental organisations (NGOs) and in smaller streams than before.

## 2.1 The adverse effects of proliferation and fragmentation

The reality of donor proliferation and its effect on individual countries has long been known. Some 20 years ago Morss (1984) recognised some of the deleterious effects of this trend:

> Instead of working to establish comprehensive and consistent national development objectives and policies, government officials are forced to focus on pleasing donors by approving projects that mirror the current development "enthusiasm" of each donor. Further, efforts to implement a large number of discrete, donor-financed projects, each with its own specific objectives and reporting requirements, use up far more time and effort than is appropriate. (Morss 1984: 465)

Although there is need for further empirical research work to detail the localised impacts of proliferation and fragmentation, the body of current research and experience indicates that a trend towards proliferation in the number of ODA donors, combined with the fragmentation of aid within recipient countries, leads to higher transaction costs and has wide-ranging negative effects such as distorting host country priorities and undermining local political accountability.

To gain a better understanding of whether the actions of actual donors might be contributing to undermining the value of aid through proliferation and fragmentation, Acharya *et al.* (2004) have recently attempted to better define aid proliferation, measure it and examine its effects. Specifically, they contribute to the literature by (1) categorising the adverse effects of proliferation; (2) looking at the patterns of *proliferation* and producing an indicator of donor proliferation that ranks donors by the degree to which they proliferate; (3) producing an indicator for *fragmentation* of aid sources within recipient countries; and (4) showing how the worst proliferators supply aid to countries with the highest levels of aid fragmentation.

Their central argument is that present patterns of donor proliferation are creating significant increases in the "fragmentation" of aid within recipient countries, without a proportionate increase in overall ODA funding to compensate. The immediate consequence of such a trend is a very large increase in the "transaction costs" incurred by the executive agencies of recipient countries in their engagements with aid donors which tends to undermine the value of aid.

"Transaction costs", both direct and indirect, are those expenses that arise in the process of exchange and trade, in this case between a donor and developing country government (Newman 1998: 676). Direct transaction costs entail 'the absorption of scarce energies and attention of senior government staff to an inefficient degree' (Acharya *et al.* 2004: 9). Indirect transaction costs refer to 'the creation of dysfunctional bureaucratic behaviour such as brain drain… the unwarranted continuation of projects… officials protecting vested interests by not reporting aid projects in public budgeting… competition amongst donors [which] can lead to unproductive behaviour such as hoarding of info [and] an overall lack of responsibility for aid outcomes' (Acharya *et al.* 2004: 10).

For most donors, these types of costs are considered a near-inevitable part of the development business. Numerous attempts have been made to reduce transaction costs by increasing aid concentration. Policies have ranged from thorough innovative techniques such as SWAps (sector-wide approaches) to more traditional strategies such as budgetary support, aid coordination and sector specialisation. As reported in the 2004 World Development Report most attempts into these alternative models of organisation have either failed or remain tentative due to formidable bureaucratic and political constraints on changing each donor's funding procedures. These models and the constraints upon their implementation will be examined specifically in the context of climate change, as discussed below.

## 2.2 Measuring proliferation and fragmentation

The transaction costs incurred by the proliferation and fragmentation of aid are virtually impossible to quantify accurately. The more tangible statistics of donor and project proliferation are easier to examine and thus used by Archaya *et al.* to create an Index of Donor Proliferation (IDP). The IDP ranks donors by the number of countries they are involved in and the degree to which they spread their aid equally amongst recipient countries or concentrate it only on some. The index is based on statistics from the OECD Development Assistance Committee (DAC) for average annual aid flows from its members between 1999 and 2001. The IDP only includes bilateral aid flows from donors since a reliable, similarly compiled data set for aid to multilaterals and NGOs was impossible to find (the policy implications of this lack of data is discussed below).

Using the IDP, Acharya *et al.* found that Germany was the worst proliferator, granting aid to 135 countries, 76 per cent of which received less than 1 per cent of the total aid budget. It was followed by Canada, the Netherlands and Switzerland. Portugal and Greece had the lowest scores. Perhaps most disconcerting is the fact that the *average* bilateral donor assisted 107 countries, and 80 per cent of recipients received less than 1 per cent of the donor's aid budget (Archaya *et al.* 2004: 3). Acharya and his colleagues deduce some interesting common attributes among the worst proliferators. Most of them are northern European, have little or no colonial history and have relatively new ODA programmes, distinguished by being more "progressive" than others.[1] The remainder had few commonalities except that they tended to have either small aid budgets or long colonial histories (Acharya *et al.* 2004: 15).

Aid proliferation does not necessarily imply that donors are all giving to the same recipients (they may be giving aid more to ex-colonies or different countries from other donors) so it was important for Acharya *et al.* to check the extent of aid fragmentation within recipient countries. To do this, the authors devised an Index of Recipient Fragmentation (IRF), incorporating the number of donors each recipient interacts with and the relative distribution of funding amongst donors to each country. On average, each developing country was found to be engaged with 26 official donors (11 multilateral and 14 bilateral) (Acharya *et al.* 2004: 2). There was also a large variation in the individual IRF scores meaning that some dealt with very few donors and some many more.

If the countries with the highest levels of fragmentation were found to be receiving aid from the worst proliferators, then there would be an especially strong case for encouraging greater concentration of aid among those proliferators (thus reducing the transaction costs engendered by fragmentation). The index was therefore regressed against the *average* IDP score for all donors aiding each recipient country as well as the Gross National Income (GNI) of each country. The hypothesis was that aid recipients with high IRF scores would tend to be (a) small (as measured by total GNI) and (b) especially likely to receive aid from donors who were *proliferators*. The authors found that there was a strong correlation with small countries dealing with inordinately large numbers of donors.[2]

Acharya *et al.* (2004) therefore demonstrate that the most extreme bilateral proliferators tend to concentrate their assistance on the aid recipients who suffer the worst fragmentation problems, and that these are often some of the smallest countries (with less government capacity). Their findings imply that concentrating the funding patterns of proliferators, for example, through better coordination, would have a significant impact on aid fragmentation and the associated transaction costs. To date, however, donor coordination has been difficult to achieve and success stories are rare (Acharya *et al.* 2004: 20, see also World Bank 2004: Ch. 11).

## 3 Funding for climate-related activities

Does climate funding experience the same proliferation and funding problems identified above or does the financial architecture, comprising a multilaterally governed financial mechanism, operated by the GEF, result in greater efficiency and coordination of aid? This section explains the funding arrangements of the climate change regime, outlining the history and original purpose of these arrangements before addressing some of the advantages this unique and innovative structure has as well as criticisms voiced from developing and developed countries alike.

### 3.1 The Convention's financial mechanism

Unlike most other fields of development assistance, the unique feature of climate change finance is that it has a centralised financial mechanism subject to the political authority of the Parties. This was negotiated in the run up to the 1992 Rio Earth Summit during which developing countries demanded a global fund under the political control of countries in place of the Global Environment Facility. The GEF had been set up by donors in 1991 under the authority of the World Bank to pre-empt G-77 demands and predictably was constitutionally and administratively weighted in favour of donor interests. This proved unacceptable to developing countries who demanded (and got) more balanced arrangements (for a more detailed description of the Convention's negotiating history and its provisions, see Yamin and Depledge 2004).

Article 11 of the UNFCCC lays out the compromise which provides for 'a mechanism for the provision of financial resources on a grant or concessional basis, including for the transfer of technology' which 'shall have an equitable and balanced representation of all Parties within a transparent system of governance'. The GEF is the official "operating entity" of the Convention's financial mechanism (in fact the GEF also services the Biodiversity Convention as well as dealing with focal areas such as ozone, international waters, land degradation and persistent organic compounds).

On climate-related matters, the GEF functions under the close guidance of the UNFCCC Conference of Parties (COP) to which it submits an annual report. The COP convenes once a year; where among other things it examines and clarifies the way in which the GEF has implemented COP guidance on its policies, programme priorities and eligibility criteria. The COP does not interfere in the day-to-day management of the GEF, to avoid donor micro-management and undue political interference by recipients (common aid problems). Projects and programmes to be funded by the GEF are devised by countries and implemented with assistance by one of the GEF's "Implementing Agencies", the United Nations Development Programme (UNDP), World Bank and United Nations Environment Programme (UNEP) along with seven other agencies who can help countries design, develop and implement projects. Although the World Bank administers all GEF funds, and the GEF Secretariat is housed within the Bank, the Bank does not have any political control over GEF operations, which are operationally distinct.

The operational aspects of the GEF's work is overseen by the GEF's own governance structure, the key to which is the GEF Governing Council. The Council is responsible for all major operational decisions. Broader changes in overall policy and the "GEF Instrument"[3] are made by the Assembly, which meets every three years and is composed of all of its 175 member governments. The Council presently consists of 32 geographical constituencies with 16 seats for developing countries, 14 for developed countries and 2 for "economies in transition".[4] Decisions are made by consensus or failing that by double majority (i.e. a majority of donors and a majority of recipients). Unlike the Bretton Woods institutions, which have decision-making structures underpinned by donor contributions, the GEF's governance structure more fairly represent the interests of developing countries and other beneficiaries as well as donors, in a sense creating a hybrid between the UN and Bretton Woods system of representation (Sjöberg: 156).

Apart from Convention reporting related requirements and linked capacity building activities, which the GEF must fund in full, one of the key fundamental policies of the GEF is to limit project funding for developing countries to the "agreed incremental costs" of attaining global environmental benefits.[5] As explained by Huq and Reid in this *Bulletin*, the concept of incremental costs is relatively easy to apply to mitigation projects but more problematic to apply to adaptation projects as the majority of these results in national benefits.

### 3.2 Funding sources and channels

Financial contributions to the GEF are collected in voluntary replenishments once every four years and disbursed among the agreed GEF focal areas. According to Yamin and Depledge (forthcoming 2004), from 1991 to June 2003, GEF grants to climate change activities totalled US$1.6 billion (out of a total of US$4.4 billion for all focal areas) with an additional US$9 billion contributed through co-financing.[6] Over the most recent reporting period (July 2001–May 2002), total project financing for climate change activities exceeded US$ 901 million, of which the GEF provided US$ 136 million in grant financing.

It is important to note, however, as allowed in the Convention, not all climate-related funding goes through the GEF as some is provided through bilateral, regional and other multilateral channels. An assessment in 2001 by UNFCCC bodies of GEF and non-GEF funding for national communications (reports due under the UNFCCC, as opposed to greenhouse gas reducing mitigation projects or adaptation) showed that the GEF provided $79.6 million with non-GEF sources providing US$54 million, a ratio of 60:40.[7] Thus assessing the total amount of climate-related funding provided by Annex II Parties, and other Parties not so listed, is more complex than totalling GEF contributions indicating there is a degree of proliferation occurring in the climate regime (the policy implications of this are discussed below).

The scale of funds for climate mitigation and adaptation projects flowing outside the Convention's financial machinery is significant. Recent work by the OECD DAC has concluded that in general bilateral ODA activities targeting the objectives of the UNFCCC are few and represent a small share of total bilateral aid, an annual average of 7.2 per cent of OECD members' total bilateral ODA commitments in 1998–2000, which amounted to some US$2.7 billion *annually*.[8] Of course, the 7.3 per cent represents quite a sizeable sum when compared with the US$2.97 billion in total pledged to the GEF to cover the next four years for all six focal areas.

As far as future funding is concerned, in 2001 the EU together with Canada, Iceland, New Zealand, Norway and Switzerland pledged to the COP they would provide a total of US$408 million (or 450 million euros) per annum by the end of 2005 for allocation to climate change. The text of their joint declaration stated that this funding could include contributions to the GEF, bilateral and multilateral funding additional to current levels, funding for the three new funds established by COP 7 (see below) and funding derived from the share of proceeds of the Clean Development Mechanism. This gives donors considerable flexibility to decide which channels they will use to disburse funds and thus has a direct bearing on whether funding for climate activities in the climate regime will be subject to more proliferation or less.

Until 2001, all GEF funding for climate change was channelled by the GEF through a single trust fund, called the GEF Trust Fund for Climate Change. Dissatisfaction with the concept of incremental costs, USA withdrawal from the Protocol and the desire to give funding priorities to certain groups of countries (the Least Developed Countries, LDCs) and activities (like adaptation) resulted in pressures to reorganise how the GEF handled climate finances (see Huq and Reid, this *Bulletin*). COP 7, held in Marrakesh in 2001, created three additional new funds in the climate regime, all of which will be operated by the GEF. The three funds (described in more detail by Huq and Reid, this *Bulletin*) are:

- Special Climate Change Fund (SCCF)
- Least Developed Country Fund (LDCF)
- Adaptation Fund

The SCCF and LDC Funds are established under the Convention and thus come into operation as soon as the COP gives guidance to the GEF, which it has recently done at the COP 9 in Milan 2003. For legal reasons (essentially because the protocol has not yet entered into force and the USA will remain a non-party when it does), a legally distinct fund, known as the Adaptation Fund, had to be established under the protocol, which is not yet in operation.

### 3.3 "Bottlenecks at the Bank": criticism of the GEF

Although one of the aims of the GEF in operating the financial mechanisms of the Rio Conventions was to make funding for global environmental concerns more efficient, the GEF has not escaped criticism. Attacks have come from NGOs and developed and developing countries alike.

Perhaps as a result of its affiliation with the World Bank, or perhaps because of its unorthodox legal stature, the GEF is a bureaucratic jungle. It has been regularly lambasted by developing countries for the inordinate delays and cost involved in the preparation, approval and disbursement of funding for projects. For full-scale projects, the necessary planning process can take up to 18 months and then the wait before approval at the GEF Governing Council can be up to another five months. Disbursement of funding requires a further round of paperwork, and if a grant is required for project preparation, the wait can be around 12 months (Yamin and Depledge 2004, Ch. 10: 39). Recent COPs have requested the GEF to streamline its project cycle but this is taking a long time and there is little sign things will change dramatically. Thus centralising climate funding through a single institution does lead to lengthier approval times and delays. Not least because there are legitimate demands that it operate in a transparent fashion, such as by publishing all project documentation on the internet and allowing consultations in project design, implementation and the GEF's own decision-making procedures.

An additional focus of criticism (and delays) is the complex procedure for calculating incremental costs. This has been criticised ever since the first COP, first for being too inflexible and later for being too *ad hoc*. The GEF has again received guidance from subsequent COPs to continue to make the concept more transparent and understandable but the GEF has yet to report on the results of the latest requests by COP 8. The most intractable current problem is the relevance of incremental cost concept with adaptation projects (discussed by Huq and Reid, this *Bulletin*, Klein *et al*. 2002; and Adger *et al*. 2002).

The biggest source of criticism is the low level of funding given to the GEF when compared with developing country expectations at Rio and when compared with their actual needs. The issue of absolute levels of funding raises two issues: co-financing and the spread and tracking, of climate aid among bilateral and multilateral channels. The issue of co-financing, i.e. the ratio of money leveraged by the GEF through use of its resources, has recently become an important issue with some developing countries suggesting GEF project should achieve ratios in the order of 12 to 1, rather than the 3 to 5, as currently leveraged by the GEF (Yamin and Depledge 2004: Ch. 10). But trying to assess what counts as GEF co-financing means addressing important definitional and methodological problems as to what resources are to count as available to a country or a project and then separating these out from those provided by the GEF.

The second issue of the spread and tracking, of climate aid between the GEF and other bilateral and multilateral flows also raises definitional and methodological issues about what is to count as "climate change" related aid. Gaining a clear picture of the quantity of funds flowing through non-GEF routes is not easy. UNFCCC national communication reporting guidelines require donor countries (Annex II Parties) to report on their climate related contributions to the GEF and bilateral, regional and multilateral channels and these provide an important source of information.[9] But these requirements are fairly recent and still allow data to be presented in an often incomparable fashion, making the tracking of climate aid quite difficult.

The OECD DAC has only recently begun to address the problem of bilateral ODA reporting requirements in respect to the all the Rio Conventions (OECD, DAC 2002). As part of this process, the DAC has arrived at a rough estimate for bilateral aid in pursuit of the UNFCCC, putting it at around US$2.7 billion per annum i.e., almost four times the GEF annual budget for all of its focal areas from 2002–06. If correct, this figure implies much higher levels of climate funding showing that bilateral agencies appear strongly committed to the cause of climate change but, of course, much depends of what is being counted as "climate change" activities.

If the OECD DAC findings are broadly correct, they would imply, however, in climate change, as with other kinds of aid, donors are continuing to assist their preferred countries bilaterally in the manner that suits them, rather than following the sense and spirit of politically guidance agreed through the COP by channelling funding through the Convention's financial mechanism. Research by the UNFCCC Secretariat, for example, shows that a majority of bilateral assistance between 1997 and 1999 was spent on climate change mitigation not adaptation activities crucial to protecting vulnerable populations. Finally, since there is no evidence to the contrary, it can be assumed that these aid flows are occurring in a similar manner to ODA in other areas, giving rise to aid fragmentation and larger, transaction costs.

## 4 Policy issues and suggestions

Understanding how much funding is going to climate activities and through what kind of funding channels, is important if climate funding is to be better organised, as it must be. This means that greater transparency is needed first of all in tracking down who is funding what and why. Although political pressures at the COP have led to new funds being established, these funds could remain empty or attract very low levels of funding if donors continue to prefer bilateral funding, avoiding the coordinated, more centralised approach that have been politically preferred by the COP and which are perhaps more efficient in delivering aid. This is perhaps to be expected. As noted in the 2004 World Development Report, incentives for bilateral channels and the political economy of aid in recipient countries work against the consolidation/coordination of aid. These reasons include:

- Aid agencies want to be able to identify their own contributions often through distinct projects.
- Agencies need to show quick results to taxpayers.
- Policy makers in donor countries are tied to certain interest groups that place a high priority on funding like-minded institutions in developing countries.
- Donors are often most comfortable with service delivery systems of the type operating in their own country.
- Donors may distribute money across a wide number of projects and sectors to increase their visibility (an example of intentional proliferation) (World Bank 2004: 216–7).

Avoiding lengthy bureaucratic delays trying to steer funding through the GEF's complex procedures and its restrictive requirements, regarding incremental costs, for example, could also be legitimate reasons for avoiding more centralised, multilateral channels. Additionally, as stressed by Acharya *et al.* (2004) *some* pluralism in funding is beneficial as this allows for experimentation, and provides choice for recipient governments and *healthy* competition between donors. Deciding where the balance lies between coordination and centralisation on the one hand and bilateral free-for-all on the other, will only be possible if we can first pin down what is happening to climate flows as a whole, which requires far more research.

For all the criticisms heaped upon it, the climate change regime is fortunate in having established a financial mechanism under the political control of the COP and one which has over the years improved its standing with NGOs and developing countries alike. Its equitable governance structure that balances the interests of donors and beneficiaries, its ability to fund large projects coherent programmes in a strategic manner that avoids at least some of the "bittiness" of many donor efforts are important advantages. Its position as a multilateral institution with central oversight gives it a degree of responsiveness, efficiency, fairness and accountability lacking in any other institution (Sjöberg 1996). Because the very existence of the GEF ensures some degree of donor coordination and coherence in climate funding, its continued support and greater use would be of merit.

Because in the real world bilateral funding of climate activities will continue (for the political economy reasons discussed above), it is also important for climate policy makers to examine other policy suggestions addressing the problems of proliferation.

First, donors need to become more acutely aware of the negative impacts of proliferation. The dissemination of research and calls for greater coordination among donors and between donors and recipient governments, as evidenced by the suggestions contained in the 2004 World Development Report, for example, will hopefully set the stage for progressive donors to think about better coordination of their aid flows.

Improving reporting requirements by donors under the UNFCCC as well as better use of data held by the OECD and the GEF is critical for ensuring transparency, avoid duplication of efforts and to enable policy makers to know which areas/sectors/countries are receiving too little funding, or perhaps too much.

So far as specific suggestions are concerned, Acharya *et al*. (2004) lay out four different approaches to aid integration that have been used in the past: (1) coordination, (2) sector-wide approaches (SWAps), (3) budgetary support, (4) sector specialisation. The application of these approaches and how these might be used in the context of the climate regime with its distinctive multilaterally constituted funding arrangements, also deserves more attention, but requires far more work. Not least because experience with these approaches has been limited and when it has occurred has drawn criticism. Even the most popular approach of the last decade, SWAps, has been criticised for poor uptake, long preparation and implementation periods and for weakening the recipient's compact between its policy makers and provider organisations by taking the sector out of the domestic decision making process (Pavignani and Hauck 2002; Adam and Gunning 2002).

The integration of climate change considerations into existing development projects is another, essentially complementary, approach that might decrease proliferation (see Huq and Reid, this *Bulletin*, on the challenges of mainstreaming adaptation) and one favoured by the OECD DAC. Whether the provision of a checklist of tools that enable development professionals to better consider the cross-over effects of projects with the Rio Convention issues, as suggested by the OECD, will help is something that needs to be researched and assessed. Exposure of development professionals to such tools might enable them to consolidate their capacity to integrate Rio Convention aims into the policies of their own agencies. Or use of these tools could turn out to be another time-consuming exercise or another funding conditionality that has to be met.

## 5 Conclusions

Overall aid budgets are constrained and even if these were to increase significantly to match needs, the negative impacts of aid proliferation would remain. These impacts raise issues donors find difficult to address. The Convention's financial mechanism and its refinement over a decade was intended to avoid some of these problems. In some respects, therefore the climate change regime is already streets ahead in trying to advance coordination among donors and recipients. Although many problems are being addressed by the COP and by the GEF, many remain. One of the key issues in the climate change will be what to do about the large parallel flows of bilateral aid and the problems of aid proliferation this is known to create. While some level of autonomous project activity funding through bilateral aid is healthy (to encourage diversity, experimentation and competition among donor), much of it is not. Deciding where the balance lies will require much better communication between both donors and recipients and by policy makers within the climate and development communities.

## Notes

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1. "Progressive" in this context basically entails a focus on general poverty alleviation as opposed to large financial transfers to countries important for national self-interest.
2. It is posited that the proliferation of aid to smaller countries is due to the "UN effect", whereby the votes of small developing countries in the General Assembly are "bought" by developed countries through providing them with aid.
3. Effectively equivalent to a Constitution.
4. Countries that are undergoing a transition to a market economy, i.e. former members of the Soviet Union and other former communist states of Eastern Europe. The official list can be seen in Annex I of the FCCC.
5. See also GEF Operational strategy for Climate Change, http://www.gefweb.org/public/opstrat/ch3.htm#notes3.
6. FCCC/CP/2003/3, GEF Annual Report to COP 9. See also FCCC/CP/2002/8.
7. FCCC/SBI/2001/15, CGE Report, p. 25 and Table 1.
8. FCCC/TP/2003/2, para. 53 and OECD, 2002.
9. FCCC/CP/1999/7, Section VII.

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