



# THE FUTURE OF AID: REBALANCING THE GLOBAL AID ARCHITECTURE TO RESTORE AID EFFECTIVENESS

## Key messages

- The **global aid architecture has become increasingly complex** in the last two decades. Global aid increased, benefiting low-income countries, but not enough. Official financial flows (OFF)<sup>1</sup> to developing countries have tripled surpassing \$1 trillion, but still fall short of the estimated \$2.4 trillion needed annually to address pressing global challenges like climate change, conflict, and pandemics.
- The increased complexity is **the result of a rapid proliferation of donor agencies, fragmentation of financial flows, limited direct funding through national budgets, and ineffective leveraging of resources.**
- **Multiple donors and channels create huge administrative burdens for low-income countries** with weak implementation capacity.
- By exploring **opportunities for co-financing and partnerships** between Multilateral Development Banks (MDBs) or horizontal platforms and vertical platforms<sup>2</sup>, we can meet urgent financing needs, achieve economies of scale, and more effectively mobilize scarce resources.
- **MDBs, like the World Bank's International Development Association (IDA), are crucial players in rebalancing the aid architecture.** IDA is at the forefront of working through recipient governments on aid efficiency through its country-driven model. Its global footprint and unique hybrid financial model offer a solution to the challenges of fragmentation and declining concessional resources. To meet the growing demands, IDA requires a significant expansion of its financing capacity.

1. OFF consist of official development assistance (ODA) and other official flows (OOF). ODA consists of resource flows (grants, loans, and equity) to countries and territories on the Development Assistance Committee (DAC) List of ODA Recipients and to multilateral agencies that are: (i) undertaken by the official sector, (ii) with promotion of economic development and welfare as the main objective, and (iii) at concessional financial terms. In addition to financial flows, technical cooperation is included in ODA. OOF consists of transactions by the official sector with countries on the DAC List of ODA Recipients that do not meet the conditions for eligibility as ODA.

2. "Horizontal" platforms are multilateral development banks, like the International Development Association (IDA), and other organizations that allocate resources based on country priorities, and "vertical" platforms are organizations focused on specific sectors or themes.

## RELEVANT ACTION AREAS



## ABOUT THIS SERIES

The Financing Policy Brief Series has been prepared by the Inter-agency Task Force on Financing for Development to inform the substantive preparations for the Fourth International Conference on Financing for Development (FfD4), to be held in Sevilla, Spain, from 30 June to 3 July 2025.

The Inter-agency Task Force on Financing for Development is comprised of more than 60 United Nations Agencies and international organizations. The policy briefs in this series were not subject to review by Task Force Members, and represent the views of the authoring organizations.

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## Problem statement

Over the past two decades the global aid architecture has grown significantly in complexity, the result of a rapid proliferation of donor agencies, fragmentation of financial flows, limited direct funding through national budgets, and ineffective leveraging of resources. These trends complicate alignment of national development goals with global challenges and undermine the effectiveness and efficiency of aid. As a result, the ability of developing countries to achieve sustainable development goals is compromised.

The number of donors and donor channels has multiplied, increasing the burden on recipient countries, particularly those with weaker systems for implementation. Over the last 20 years, the number of donor agencies more than doubled, rising from an average of 226 in 2000 to 589 in 2022. Governments, even in relatively small countries, now manage hundreds of donor agencies, complicating coordination and stretching their ability to handle diverse requirements such as audits, environmental assessments, and financial reporting. The proliferation of agencies also dilutes policy leverage and can lead to conflicting objectives, making donor administration and coordination increasingly complex.

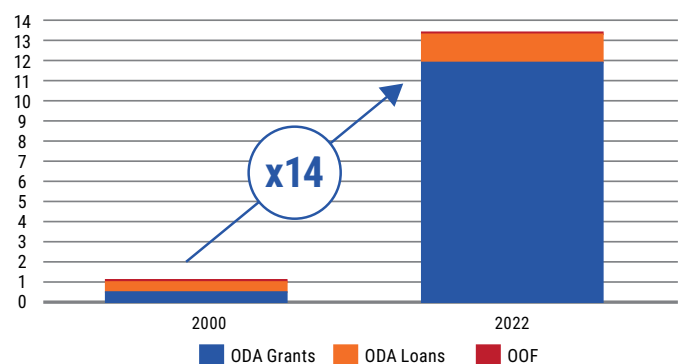
Proliferation of aid channels increased aid fragmentation, which is evident in the growing number of donor-funded transactions and the declining financial scale of aid commitments. From 2000 to 2022, the volume of OFF grew by 218 percent in real terms, while the number of transactions surged by 427 percent. As a result, the average size of ODA grants decreased over this period by half, falling from \$1.7 million to \$0.8 million. This overall reduction in grant sizes is particularly concerning for countries with weaker capacities, as the higher transaction costs associated with smaller grants impose a disproportionate burden on them.

While OFF to developing countries has more than tripled, the funds increasingly circumvent recipient government budgets. This is contradictory to the agreement made in 2005 by the international community to “put the countries in the drivers’ seat” through adoption of the Paris Declaration for Aid Effectiveness; it is evident that the world has evolved in the opposite direction. The implications

of this circumvention add to fragmentation of aid in key sectors. By 2022, nearly four out of five activities funded by OFF were implemented by nongovernmental entities. Three quarters of the funds bypass country budgets due to the use of nongovernment channels such as donor governments, multilateral agencies, NGOs, and private sector institutions. At the same time, the average share of budget support in overall OFF was just 10 percent, and the share of core contributions and pooled funding was seven percent on average. Countries with a low index of government effectiveness tend to have a high degree of circumvention of OFF, and the majority of these countries are also fragile and conflict-affected situations (FCS).

Lastly, aid earmarked for specific sectors or themes, particularly through vertical platforms, has seen significant growth, limiting opportunities for optimal leveraging of scarce concessional resources. In the last two decades, vertical platforms’ grant commitments increased by an average of 27 percent annually while bilateral contributions to horizontal platforms have been mostly flat in real terms over the last 10 years (see Figure 1). Vertical approaches, effective in tackling specific issues like HIV/AIDS or climate change, can achieve economies of scale but typically operate as unleveraged facilities, limiting resource mobilization. In contrast, horizontal platforms like IDA work as leveraged facilities. In IDA’s unique case amplifying every donor dollar by three to four times the financing, enabling a larger envelope of resource mobilization and potentially larger long-term impacts.

**Figure 1.**  
**OFF Commitments from Vertical Platforms - US\$ Billion at 2022 Prices (Commitments, US\$ Billions)**



Source: OECD DAC Creditor Reporting System



## Policy solutions

- **Rebalance the global aid architecture:** Promote a more balanced approach to the allocation of bilateral donor contributions that recognizes the strengths of both horizontal aid providers (MDBs) and vertical (earmarked funds) platforms. By doing so, economies of scale can be achieved to meet urgent needs and close financing gaps. One potential option to address this need is the optimization of earmarked funds through the country-based model of MDBs, such as in the case of IDA with its hybrid financial model that has the unique capability to leverage each dollar of donor contribution three to four times, considerably expanding the overall envelope of resources available to developing countries.
- **Strengthen the role of horizontal platforms:** Recognize the importance of MDBs to provide the foundation for a more coordinated and effective aid system. This can be done by reversing the trend of declining donor contributions to concessional MDBs, like IDA, and ensure adequate resources are available to address the needs of the poorest countries.
- **Incentivize donors to channel a larger proportion of financing through recipient government budgets, either as general or sectoral budget support:** In cases where government systems are not robust enough, donors can utilize pooled or basket funding mechanisms. In that context, the OECD DAC could keep track of how much OFF goes through recipient country budgets and publish this information annually.
- **Strengthen recipient country systems and local NGOs:** This is necessary so that the policy of localization can be applied increasingly effectively. It involves building the in-country capacity of government entities (including increasing effectiveness of public administrations, public service delivery and transparent governance), local NGOs, and private sector to plan for and deliver external finance effectively.
- **Revitalize the original principles for aid effectiveness adopted by bilateral donors—country ownership, focus on results, inclusive partnerships,**

**transparency, and mutual accountability—so that recipient countries can return to the driver's seat.**

To address the inefficiencies and fragmentation in the global aid architecture, a more balanced approach that leverages the strengths of both horizontal and vertical platforms is essential. Multilateral development banks play a critical role in providing a stable and coordinated foundation for aid delivery. Strengthening their role and ensuring adequate concessional financing is crucial to meet the urgent needs of the poorest countries.

Promoting country ownership and alignment with national priorities is also vital. Aid should support country-driven development strategies, ensuring that resources are used effectively to address the unique challenges and opportunities in each context. By providing aid through nongovernmental channels to respond to internal political economy constraints and the need to show immediate and tangible results, donor governments might lose sight of long-term collective welfare and neglect the need to build country ownership, strengthen country systems, and thereby improve the effectiveness and sustainability of development assistance.

Improving collaborative platforms and coordination among donors and development partners is another key policy solution. By working together, donors should reduce duplication of efforts, streamline aid delivery, and minimize the administrative burden on recipient countries. A stepped-up collaborative approach will enhance the overall effectiveness and impact of aid.

## Specific recommendations for FFD4

The international community through its deliberations in the FFD4 process needs to include a focus on rebalancing the current global aid architecture. This can only happen if the original principles for aid effectiveness adopted by bilateral donors—country ownership, focus on results, inclusive partnerships, transparency, and mutual accountability—are respected and implemented. This means prioritizing the aid effectiveness commitment to strengthen country ownership and put recipient countries back in the driver's seat. Revitalizing the role of MDBs in the global aid landscape, will be key to achieve this.



The country-driven model of aid used by MDBs and championed by IDA is founded on the principles of country-ownership, alignment, harmonization, results orientation, inclusiveness, and transparency and accountability. This approach ensures that recipient countries maintain control over their development agendas by setting their own priorities and strategies, and it emphasizes the need for transparent use of funds.

In addition, greater balance in the allocation of bilateral aid contributions is important because MDBs play a crucial countercyclical role in helping the poorest countries withstand financial crises. They also collaborate to ensure their respective financing options fit within a coherent framework and incentive structure and coordinate on

common approaches on resource allocation, graduation criteria, regional initiatives, support to fragile and conflict-affected situations, and crisis response.

The issues cannot be resolved overnight, so there needs to be a sequenced, multi-year action plan. The key steps may include: sharing of the facts; analysis of the problems, especially the administrative burden on recipient countries; quantification of the allocative inefficiency at the global level; identification of ways to incentivize/encourage consolidation of aid channels, programs and projects; and a review of reporting requirements which may affect how aid is channeled. It would be useful to have two countries champion this cause – one donor and one client.