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**Research Report**

## Thematic aid allocation: what are the benefits and risks?

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## Thematic Aid Allocation: What Are the Benefits and Risks?

### Summary

Aid allocation is typically country-based, i.e. focusing first on how to distribute Official Development Assistance (ODA) across countries. Donors consider the needs of developing countries as well as their own interests before deciding which country should receive how much assistance. Subsequently, donor and partner governments choose the thematic areas or sectors of cooperation, such as health, education, the environment, or food security.

As an alternative approach, thematic allocation has gained increasing relevance. This form of allocation earmarks funds for specific issues prior to the selection of partner countries. The special initiatives of Germany's Federal Ministry of Economic Cooperation and Development (BMZ) and the United States (US) presidential initiatives for health and food security are prominent examples.

The process of aid allocation is crucial for the effective use of scarce public funds. Global changes raise the question to what extent funds should continue to be allocated in a primarily country-based manner or whether a thematic approach is more useful. Historically, development cooperation has evolved as a policy to support poor countries. However, these countries now vary greatly in their development (fragile states, graduated countries, etc.). The North-South logic underlying the term "developing country" is inconsistent with the universal 2030 Agenda. The Sustainable Development Goals (SDGs) are organised thematically. Many challenges require cross-border solutions (e.g. climate, health, migration).

Thematic allocation aligns development cooperation with international challenges. Experience thus far shows both benefits and risks. Thematic allocation can mobilise funding for key issues, bundle resources and raise the visibility of aid. It enables cross-border cooperation, offers room for innovations and is more flexible. Yet, a number of initiatives bypass local capacities and the institutions of partner countries more frequently than country-based allocation does. In other cases, uncoordinated parallel structures arise, which do not take sufficient account of ongoing activities.

Thematic allocation is likely to become more important as part of the global effort to achieve the 2030 Agenda. Donors should therefore systematically examine to what extent they want to use thematic allocation in the future. A rigorous assessment can help to better utilise benefits and minimise risks.

The key challenge is to make effective use of the more flexible cooperation framework offered by thematic allocation. To this end, donors should sharpen their thematic profiles and select issues according to their comparative advantages. Donors also require adequate organisational structures to be able to coordinate all relevant actors in a given issue area, both internally (e.g. through whole-of-government approaches) and externally working together with a broad range of partners. Ultimately, donors should further strengthen the role of partner countries in thematic programmes and initiatives to ensure that a shift of perspective from countries to themes does not come at the expense of country ownership.

## Introduction

The aid allocation process is the framework within which donors decide how to use Official Development Assistance (ODA). Until now, the focus has been on country-based allocation: which countries should receive ODA and how much? Against the background of the 2030 Agenda, the Paris Climate Agreement, the debate about global public goods and other cross-border challenges, such as hunger and migration, an alternative approach has gained significance: the allocation of ODA according to themes.

Governments already make thematic commitments in order to implement international agreements. For example, Germany has committed specific amounts of ODA for food security, climate protection, biodiversity, health, tackling the causes of displacement, and education. Germany's annual thematic commitments amount to over nine billion euros, compared to a total ODA budget of around 16 billion euros in 2016 (not including in-donor refugee costs). These commitments influence allocation decisions, although there might be double counting and not all commitments can be fulfilled.

An increase in thematic allocation is difficult to quantify. Databases for recording ODA flows do not use this category. The increase in earmarked funding for multilateral organisations and the use of vertical funds, such as the Global Alliance for Vaccines and Immunization (Gavi), can be viewed as a trend towards more thematic allocation. Further, this trend is most visible in the growing number of thematic initiatives and programmes of bilateral donors.

The United States (US) Aids initiative PEPFAR has been a model for "presidential initiatives" since 2004 (e.g. Barack Obama's *Feed the Future* – FTF). In 2014, Germany introduced three special initiatives to tackle root causes of displacement, promote development in North Africa and the Middle East, and reduce hunger and malnutrition. Already in 2011, Germany created the thematic "Energy and climate fund" to contribute to international climate finance. The European Union (EU) uses thematic instruments and programmes, for example to promote global public goods. The United Kingdom (UK) has also been increasingly implementing thematic global projects. Norway's development cooperation is entirely organised according to themes addressing specific global challenges.

## What is thematic allocation?

The aid allocation process of bilateral donors begins with deciding the amount of ODA funding in the national budget. Donors then choose the partner countries, themes, funding channels, instruments and implementation partners for achieving their goals. The main difference between country-based and thematic allocation lies in the order in which countries and themes are selected.

Under a country-based allocation model the first decision is which country will receive how much ODA. This selection is usually made on the basis of a list of partner countries.

Common selection criteria are needs and performance (good political institutions, development orientation etc.). Political, economic and ecological interests as well as historical relations (such as a shared colonial history) also influence the choice of partner countries. The choice of the issues or sectors of cooperation takes place subsequent to the selection of partner countries, often in the framework of intergovernmental consultations.

In contrast, the thematic allocation model initially earmarks parts of the overall ODA budget for specific issues. Here, too, the subsequent selection of partner countries adheres to criteria such as needs and performance, as well as various interests. Still, the criteria are more specific to identify the countries that are most relevant for the selected issues. Priorities of partner governments, ongoing programmes and potential for cross-border cooperation can be additional selection criteria.

The two allocation models do not necessarily differ in the selection of funding channels, instruments and implementation partners. Generally speaking though, thematic allocation offers more flexibility, as it is less bound to existing structures of cooperation with partner countries. It is therefore more open to a blend of instruments and implementation partners. Moreover, funding of non-state actors and transnational partnerships is often more prevalent in thematic allocation.

## Thematic allocation in practice

Thematic aid allocation is highly diverse, as Table 1 illustrates with examples from the field of food security. In contrast to other donors, Norway has an exclusively thematic allocation system. Focusing on a few global challenges, Norway can better leverage the size of its ODA budget to play a leading global role in areas such as forest conservation. In most cases, however, thematic allocation occurs in combination with country-based allocation.

The diversity of thematic allocation models becomes especially apparent in the varying sizes of the examples. High-ranking initiatives such as FTF and the German special initiative "One World – No Hunger" (SEWOH), which work with a wide range of partners and instruments, have an annual budget of more than 1 billion US dollars (FTF) and 220 million euros (SEWOH). In contrast, the UK's global projects have small budgets.

The examples further differ in how they fit into the overall aid portfolio of a donor. FTF forms an umbrella framework, which bundles all activities of the US government in a cross-departmental (whole-of-government) approach. Other models are linked or subordinated to country-based allocation. The *Global Public Goods and Challenges Programme* of the EU, for example, is integrated into the primarily country-based *Development Cooperation Instrument*. Funds from this programme need to demonstrate a specific added value, e.g. enabling cross-border cooperation or innovative cooperation formats.

Donor	Model	Example	Volume, duration	Characteristics
<b>European Union</b>	Global Public Goods and Challenges Programme (GPGC)	Food and Nutrition Security and Sustainable Agriculture	Approx. EUR 1.4 bn in the 2014-2020 financial framework	Integrated into the primarily country-based <i>Development Cooperation Instrument</i> to enable more flexible, cross-border, innovative spending
<b>Germany</b>	Special initiatives	"One World – No Hunger" (SEWOH)	Since 2014, approx. EUR 220 m per year	Political visibility, division into multiple global projects in order to strengthen cross-border cooperation, linked to bilateral projects
<b>Norway</b>	General alignment towards global themes (climate, forests etc.)	Food Security in a Climate Perspective	Approx. EUR 100 m per year, 2013-2015	Integrated strategy for food security and climate protection, strong increase in funding, predominantly multilateral organisations and non-state actors as implementation partners
<b>United Kingdom</b>	Various global projects	mNutrition	Up to £ 20.5 m in the period 2013-2018	Promotion of new forms of cooperation with non-state actors, support of global initiatives such as the New Alliance for Food Security and Nutrition
<b>USA</b>	Presidential initiatives	Feed the Future (FTF)	Since 2010, approx. USD 1 bn per year	Political visibility, whole-of-government approach bundling all relevant US instruments, linkages with multilateral initiatives (Global Agriculture and Food Security Program)

Source: Authors

### Advantages and disadvantages

Advantages and disadvantages of thematic allocation of bilateral donors strongly depend on the specific approach taken. Generally speaking, benefits and risks can be described via four trade-offs.

#### Bundling/coordination versus fragmentation

Thematic allocation can bundle and coordinate activities related to an issue, both within donor structures and internationally. Internally, thematic initiatives can use whole-of-government approaches to better align all relevant ministries and implementing organisations with common goals, as in the case of FTF. Clear linkages with multilateral initiatives can improve international coordination.

Nevertheless, thematic allocation can fall short of these expectations and even worsen fragmentation. Whole-of-government approaches often suffer from bureaucratic competition and a vague distribution of competences. USAID, for instance, is in charge of coordinating the eleven government departments and agencies involved in FTF, but is not always able to assert itself against "stronger" actors in domestic politics. Typically, thematic allocation is more project-based and involves diverse implementation partners, which increases the risk of fragmentation.

#### Flexibility versus ownership/alignment

Greater flexibility can be one of the main advantages of thematic allocation. Funds are not earmarked for specific

countries or regions. They may reach countries without bilateral programmes (e.g. graduated countries, conflict-affected countries). Funds can be more easily disbursed for unforeseen needs. There is also greater leeway in choosing funding channels, instruments and implementation partners.

However, flexibility can undermine country ownership and partner orientation. In the case of thematic allocation, coordination with partner governments is not always as clearly organised as in country programmes. For example, intergovernmental consultations play a less important role. Pre-selecting themes makes it more difficult for donors to adapt to the priorities of partner countries. In this respect, thematic allocation can be seen as part of a trend towards emphasising the national interests of donor countries more strongly in development partnerships. Funds are often disbursed without coordination with partner governments. UK and EU projects primarily aim at civil society organisations and research institutions. Here, international partners play a more dominant role than smaller, local organisations.

#### Innovation versus results

Greater scope for testing innovative solutions is a further advantage. Openness towards different implementation partners favours innovative approaches. Thematic allocation is therefore more suitable for new forms of cooperation, in particular with non-state partners (e.g. multi-stakeholder initiatives). Successful solutions can subsequently be transferred to country programmes.

Yet, the potential for innovation has its limits. New forms of cooperation have high start-up and transaction costs, if they are not led by strong partners or linked to existing structures. In addition, there can be tensions between testing new approaches and the ambition of larger initiatives to use tried-and-tested measures to achieve quick results.

### Visibility versus predictability

Large thematic initiatives are often launched at the highest political level by heads of government or ministers. They are more visible than individual country programmes and can mobilise large resources swiftly.

At the same time, these high-ranking initiatives still need to prove that they can offer a sustainable and predictable framework for cooperation. Thematic allocation may be more susceptible to political change in donor countries. In many cases, changes of government put a question mark on the continuity of initiatives and their level of funding.

## Recommendations

Thematic allocation will continue to gain relevance within the context of the 2030 Agenda and global challenges. The trade-offs identified here can provide useful guidance in designing thematic programmes and initiatives. The following general principles can help bilateral donors maximise the benefits and avoid the risks of thematic allocation.

### 1) Develop a clear thematic profile

Donors should use thematic allocation in areas where they have a comparative advantage and can build upon previous activities. Allocation should then be primarily needs-oriented and aligned with the priorities of partner countries, taking account of international goals (Sustainable Development

Goals). The activities of other actors in partner countries should also be considered.

### 2) Adopt adequate organisational structures

Thematic allocation places high demands on the ability of donors to coordinate a diverse range of actors. Internally, donors should use a whole-of-government approach to align all relevant government departments and agencies with their thematic objectives. With a clear division of responsibilities and concerted work processes, donors can efficiently address complex, global problems drawing on all relevant resources at their disposal. In addition, donors require new organisational structures that allow engaging with diverse international implementation partners, in order to effectively use the advantage of greater flexibility.

### 3) Ensure partner orientation, ownership and results measurement

In the case of thematic allocation, the framework for cooperation with partner countries is often less clearly defined than in country programmes. Donors should therefore support partner countries with formulating and revising their results-oriented development strategies (country results frameworks). By using these frameworks as a basis for cooperation, donors can increase their partner orientation, strengthen ownership by partner countries and ensure a focus on results.

Overall, donors should systematically examine to what extent they can combine thematic allocation with country-based allocation. Most importantly, thematic allocation should be designed in a way that avoids the aforementioned risks, such as lack of partner orientation, missing alignment with country systems and higher fragmentation.

## References

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