

Commonwealth and Francophonie Workshop Preserving Multilateralism: User Perspectives on Reform of the International Aid Architecture

London, 17-18 January 2005

Workshop Report

Introduction

A two-day workshop was organised by the Commonwealth Secretariat and the Intergovernmental Agency of the Francophonie (AIF) and was facilitated by the Overseas Development Institute (ODI). It was held on 17-18 January 2005 and was hosted by the Commonwealth Secretariat in Marlborough House, London.

Day 1 started with a welcome from the co-chairs, **Dr Indrajit Coomaraswamy** (Commonwealth Secretariat) and **Mr José Luis Rocha** (AIF). The subsequent sessions included a presentation on a multilateral agency followed by a discussion:

- Overview – facilitated by **Mr Andrew Rogerson** (Overseas Development Institute (ODI))
- The UN Development System – facilitated by **Mr Simon Maxwell** (ODI)
- The World Bank and Regional Development Banks – facilitated by **Mr Andrew Rogerson** (ODI)
- The European Union – facilitated by **Mr Sven Grimm** (ODI)

Participants were asked in **Day 2** to carry out a matrix scoring exercise on the comparative advantages of multilateral institutions. The workshop concluded with a discussion on lessons learnt and future action.

Summary

Within a general discussion on reforming the international aid architecture, this workshop focused on gaining a user perspective on the current practices and necessary reform of multilateral agencies: the United Nations, multilateral development banks and the European Union. There was general agreement that multilateral agencies played a very important part in the international aid system and that, in many cases, it would be preferable for greater sums of money to be fed through the multilateral system in the future. However, for this to happen and to improve the quality of the development relationships, a number of changes to the characteristics and practices of multilateral agencies are needed:

- Introduction of a bottom-up approach to aid management which includes all the national stakeholders: ministries, political parties, private sector and, crucially, civil society;
- Real commitment to country ownership of development strategies and national control over macroeconomic and budget decisions. This also requires changes to the use of conditionality which can undermine this;
- Shifts in accountability mechanisms from ‘upwards’ (to donors) to ‘downwards’ (to citizens);
- Good donor practices: regular aid disbursement; harmonisation and alignment; knowledge of on-the-ground realities;
- Simplification and re-organisation of agencies.

Following on from the identification of some of these barriers, the workshop identified the 'best practice' characteristics to which all donor agencies should aspire. These characteristics fell into two main groups: the first group, (including partnership, coherence, vision, flexibility etc.), contained attributes of legitimacy and good process, whereas the second group (including available resources, efficiency, cost-effective, skilled) was mostly about speed, volume and efficiency. In order for these 'best practice' characteristics to become the basis for all development relationships, significant reform to the international aid architecture would be required. Some possible aspects to this reform included:

- Trust fund for the Secretary General of the UN;
- Changes to the voting structure in the World Bank;
- Donor Co-ordination Secretariat including an independent monitoring group at country level;
- Strong alignment and harmonisation together with multi-year budget support;
- Strengthening civil society;
- Developing country presence on OECD-DAC's Development Committee;

To ensure that any reform process had successful outcomes, it would be vital that certain criteria were satisfied: real commitment to national ownership; capacity building of public financial and expenditure management; political buy-in; assurance that reform is actually feasible and can be implemented within a realistic time-frame.

The Commonwealth Secretariat and the AIF aim to continue this process and will circulate the workshop report to G8 Heads of State and developing country government officials (Heads of State, Ministers of Finance etc). There are also plans to organise regional workshops to gather ideas for practical action points for the process of reforming the international aid system.

Day 1

Session 1: Welcome and Introduction

Participants were welcomed by the co-chairs to the workshop. The objective of the workshop was twofold: to learn from recipient government representatives about their experiences of working with multilateral agencies and to learn what reforms are necessary to make the international aid architecture work more effectively.

The consultation asked three main questions:

- What is the value-added of multilateral agencies?
- How should they change?
- What levers do recipients have or need?

In light of a growing recognition among donor and recipient governments that significant reforms need to be made to the international aid architecture, this consultation was emphasised as being particularly timely. While there is no clear or tidy process or specific forum to discuss this issue, there are significant events and processes in 2005 which could provide valuable opportunities for such discussions. This consultation, which drew out user perspectives on multilateral agencies, was agreed as being an important contribution to this process.

Session 2: Overview: where is the multilateral aid system heading and what are the main forces involved?

Presentation

Andrew Rogerson presented an overview of the international aid system and raised a number of issues to be addressed at the workshop. He started by setting the scene in which there has been a proliferation of development agencies entering the field but very few agencies exiting or 'going out of business'. This fragmentation of development assistance between various agencies and funds, including the new Global Funds, could potentially cause unhelpful competition, inefficiencies and duplication and, therefore, needs to be addressed.

Since 2001, the level of total overseas development assistance (ODA) has started to recover after substantial decreases in the 1980s and 1990s; although a significant proportion of this rise is due to increases in debt relief and emergency and disasters relief (see Table 1 in Annex 1 for more information). The bulk of ODA is provided by bilateral agencies, the majority of which is not structural but rather comes in the form of technical assistance, debt relief (in non-cash terms) or is heavily tied. There has been a sectoral shift, especially among bilaterals, to the social sectors with less emphasis given recently to growth options and infrastructure.

The share of ODA going through the multilateral system is at best stagnant. While for many years assistance passed through multilateral agencies represented 33% of total ODA, this has now started to erode to 28%. A larger proportion of assistance from multilateral agencies is structural and is less tied to national companies. However, there are a number of procedural issues (e.g. disjointed funding decisions, multi-year cycles, burden sharing formulas, global funds etc - see background paper) which reduce the ability of these 'conventional' multilaterals to absorb rapidly rising aid volumes. Furthermore, multilateral agencies and their owners have not yet addressed critical issues of where increased aid will go: through which channels, to which countries and towards which activities?

There is no architect or body with overall control of the multilateral aid system and each agency reacts to changing coalitions of the members and, quite often, the interests of top managers within the agency, who have surprising amounts of autonomy. This results in inertia in terms of making decisions and implementing them and also maintains the lack of coherence between multilateral agencies. To try and overcome this problem, development agencies have increasingly agreed to harmonise their priorities, plans and reporting requirements so that recipient governments can engage with them as a united group. However, is it possible for harmonisation to work when all agencies have multiple aid objectives? Is harmonisation desirable for all recipient governments? Is it in the interest of governments to face a 'cartel' of donors? What happens when a government disagrees with a powerful 'cartel'?

There are some forces for change within the system. The new objectives that are emerging as priorities for agencies; security, peace, trade etc, are being written into aid agreements in an attempt to link development and foreign policy objectives. There is also evidence of recipient governments setting out the rules for engagement for development agencies. For example, in India the government will only enter into discussion with agencies that give above a certain level of aid, and in Afghanistan the finance minister restricted the number of sectors in which each donor could be involved (3 sectors). Civil society is also a powerful force for change. Northern NGOs, in particular, are increasingly acting as lobbyists and critics of development agencies and are questioning the governance of agencies. In general, there are emerging 'big carrots' (like the IFF) or 'big sticks' (IDA grants) which may break institutional barriers but are these big enough and are there enough carrots or sticks?

Finally, the role of recipient countries in the aid system and their voices in multilateral agencies need to be examined. The value of contractual partnerships needs to be assessed to ensure that all parties are able to include their requirements into the agreement and that all parties are held to account. Similarly, the value of a Board seat, voting powers and other forms of influence need to be considered. While it appears that some donors are genuinely listening to the needs and priorities of recipient governments, this is not yet consistent or comprehensive. This opening session concluded by asking whether there is a role for the Commonwealth Secretariat and the AIF to act as mediators in future discussion on the reform of the international aid architecture.

Discussion

Participants welcomed the topic of the workshop and the opportunity to share their perspectives and experiences on working with multilateral development agencies. They considered it to be the right time to adopt a bottom-up approach to aid management which would require the participation of all sections of society, not just the 'experts'. The increasing levels of ODA are very encouraging but lead to the pressing issue of absorption and effective aid management to ensure that it has a positive impact on the poor.

Central to a bottom-up approach to aid management is national control over budget decisions. It was put forward that recipient countries would like to have greater voice in decisions over aid management, which includes aid volumes, disbursements and budget decisions. For this to work, it was understood that capacity building in national ministries would be necessary to ensure that national budget decisions are well conceived and implemented. Also, the current volatility of aid and fluctuating disbursements, which can have negative effects on the macroeconomic framework, needs to end. There would also need to be changes to the use of conditionality which is still restrictive despite recent reforms. The recent shift to performance linked aid can diminish recipient countries' control of the budget as the performance targets from donors are devised according to the donors', and not national, priorities. Overall, a counter-weight to existing "upward" accountability mechanisms is required if government accountability "downward" to their own citizens is to be protected and strengthened. There should be a determined move towards mutual accountability.

There was a general sense that some multilateral agencies have particularly powerful voices which can drown out the government's voice and lead to a public perception that the development process is all taking place in Washington. There is also an issue that some recipient governments are so dependent on the aid from certain donors that they are not in a position to criticise donor policies. Even for countries with clear plans drawn up in partnership with donors, national control over aid management remains a big problem. Bilateral aid agencies, are arguably more interested in engaging government representatives in decision making, but they still tend to by-pass the national budget and planning processes, as well as the legislature. What is apparent is that within any country there is a cacophony of voices on both sides: donors and national voices. It is, therefore, essential that there is clear and transparent communication. Furthermore, the 'direction' of the current dialogue needs to be reversed so that it is not always "an active hand giving and a passive hand receiving", with the former always above the latter. This can help ensure that national priorities are the starting point for any development partnership and that the aid received is allocated effectively and benefits recipients.

The harmonisation and alignment agenda was seen as being a step in the right direction towards giving national governments more control over the development

process. However, this should not result in donors standardising their aid so that there is only one donor-body with one message and skill-set as it is useful for national governments to work with a few donors with different knowledge that can help on different issues. For harmonisation and alignment to have a positive impact on the aid relationship, it is essential that both donors and governments follow through and put into action their commitments. It was recommended that an assessment should take place to evaluate the progress on implementing commitments since the Rome Declaration.

Another necessary element of reforming the aid system and aid relationships is the involvement of civil society. By including civil society in aid and debt discussions, it is possible to regulate the aid system and improve the impact of aid by determining the destination of disbursements to those most in need. However, it appears that often civil society is not taken seriously by some donor agencies and national governments.

Participants felt there was a general preference for more aid to go through multilateral agencies. There are also benefits of IDA concessional loans which produce re-flow of resources which are then available for other countries and can build South-South solidarity. These loans also require both parties to look at the costs and benefits of the loan and make professional judgements which are more rigorous than decision making processes around grants. It was raised that any discussion on resource management within a country must include remittances which are often significantly higher than public aid. Finally, it is important to recognise that political priorities in donor countries can determine the focus of their aid and, more generally, there is a geopolitical influence on aid that determines its trends.

The discussion also raised the issue of the role of AIF and the Commonwealth Secretariat in improving the aid system and it was suggested that collecting recipient country opinions on the aid system and relaying it effectively to multilaterals would be very beneficial to the process.

Session 3: The UN Development System from a user perspective: status, challenges, opportunities and possible direction of travel

Presentation

Simon Maxwell introduced the session on the UN development system. His presentation started with facts on the UN and then looked at its role, issues emerging from the UN system and current choices for future directions of the system.

In 2002, 8% of the aid to developing countries (total ODA was \$US58.3 billion) was channelled through the UN system (see Figure 1 in the Annex 1). This is two percent more than aid channelled through the International Development Association and two percent less than the EU. The vast majority of aid is channelled through bilateral grants and loans (69%). Of this money, significant slices go to UNHCR and UNICEF (17% and 16% respectively) while only 8% goes to UNDP (see Figure 2 in the Annex 1). The majority of the money spent by the UN goes on technical assistance while the UN is not in the practice of transferring large sums of money.

The UN's roles include: research on cross-cutting issues; consensus building, advocacy and target setting; a forum for the preparation and negotiation of international treaties or conventions; technical co-ordination and standard-setting; information collection and dissemination; co-ordination of action among agencies, both national and international; and direct action (development, peace-keeping). For one

reason or another it was decided in the past that money would be transferred through the World Bank rather than the UN. The reasons for this are unclear and could be examined in the future. A possible explanation is that the UN is a complicated organisation with numerous agencies, each with its own boards and governance procedures. It often appears for both staff and users to be unwieldy and unorganised.

There is general consensus that change needs to occur in the UN system. Kofi Annan has spoken on the issue of UN reform and is aware that the system is not working and radical reform is required. Reforming the UN has become an industry in itself and there are many initiatives. Problems within the system are not an issue of a lack of vision; the 1990s witnessed numerous future-looking world conferences on various development issues, nor are they an issue of a lack of principles which make up the foundation of the UN system and its workings, including the international human rights framework and it is not due to a lack of ideas. However, major barriers remain in the system preventing proposed reforms from working effectively.

Simon Maxwell suggested that one entry point in the discussion on UN reform is Collective Action Theory¹. Collective Action Theory shows why and how people cooperate and sets out 16 conditions that are necessary for cooperation to happen including: aligned individual and collective interests; high degree of trust; long time scale; relatively equal parties; social norms foster cooperation; only a small group that free-rides; defections lead to high costs; selective incentives induce cooperation; and wide-ranging cooperation.

The presentation concluded with some practical suggestions for activities that would contribute to the reform of the UN system. An important component of all reforms will be that there is significant input from civil society in the North and South. The UN also needs to enlist the support of other donor agencies to support any reform efforts. One possibility is the creation of a trust fund for Kofi Annan to work at strengthening the links between UN agencies and setting up mechanisms for increased joint-working. In conclusion, the UN is at a cross-road and it can become either more or less multilateral and its focus can become either more or less pro-poor.

Discussion

Participants strongly agreed with the proposition that UN reform is urgently needed. This reform is a challenge for everyone and further debates are required to answer some of the difficult questions around what should be done and how. Particularly necessary is reform of the governance of the UN system as presently there is total disorganisation and recipient countries are confused. Part of the problem is that each UN agency has a separate budget and there are currently no mechanisms which facilitate easy joint working. There are many agencies which have mandates and programmes that overlap which leads to the suggestion that there needs to be a concentration of agencies and programmes.

Harmonisation and coordination among the different UN agencies and then with other donor agencies is necessary to improve the effectiveness of aid. In countries, UNDP is generally given the lead role for harmonisation (through the CCA and UNDAF processes) and there is increasingly an emphasis on common programmes and reporting. However, progress is slow. The emphasis on co-ordination does not mean that it is necessary for the UN agencies to become identical but rather that the

¹ He recommended people to read Gillinson, S (February 2004) 'Why cooperate? A multi-disciplinary study of collective action' ODI working paper 234 (http://www.odi.org.uk/publications/working_papers/wp234.pdf)

synergies and complementarities between agencies are brought out and used to improve aid delivery.

On the question of setting up new instruments to channel aid raised in the presentation, participants felt that the UN would never be able to compete with the Bretton Woods Institutions. While more competition may not work, it would be good to link the UN to the Bretton Woods Institutions and other donor agencies. It may even be possible to create a separate body that could coordinate the work of multilateral agencies.

Some participants felt that the UN often enters discussions with recipient governments with its own very clear agenda which are then linked to aid disbursements. It was thought in particular that the UN has a strong security agenda which influences its funding pattern. Furthermore, this linking of aid to relatively vague policy prerequisites is not followed up with assistance on how to achieve or measure achievement of such conditions. It also became apparent from the discussions that much of the work of the UN tends to be off-budget which makes it very difficult for national governments to control their work or spending.

It was argued, however, that in some cases UNDP's aid has comparative advantages, especially when it is focused on areas where there are problems of aid absorption. Also, it was thought that the technical assistance provided by the UN was very useful and helped improve the disbursement and utilisation of aid. However, the UN's over-specialisation in certain areas makes it quite rigid and unable to respond to issues that may emerge for countries. There is also limited technical assistance to build the private sector or country's trade.

Participants suggested that the AIF and Commonwealth Secretariat could develop networks on the issues raised in this discussion on the UN system. The discussions on UN reform from these networks could be integrated into the State meetings that these organisations hold.

Session 4: The World Bank and Regional Development Banks: status, challenges, opportunities and possible directions of travel

Presentation

The next session on the World Bank and Regional Development Banks (RDBs) was presented by Andrew Rogerson. His presentation looked at the facts about Multilateral Development Banks (MDBs) and their operations, their roles with particular reference to the World Bank/IDA, emerging policy trends and issues and choices for reform and future directions.

There are about 25 MDBs which all vary in size and in the level of leverage they have on recipient countries and in the international aid system. Some banks are regional while some focus on a smaller, sub-regional area. In terms of their operations, again the MDBs vary in their terms (hard or soft), their focus (private or public), their instruments (policy support or projects) and their knowledge base. However, there are a number of factors that unite the MDBs including: their capital market links; the power of shareholders; their shared 'credit culture'; their use of long-term contracts; managerial autonomy; and untied suppliers. Among the MDBs, the lead institution is the World Bank. The IMF, although not an MDB technically, is enormously influential on the MDB group and shares some of its features (e.g. the softer Poverty Reduction

and Growth Facility, and its twinning with the World Bank on debt reduction and the PRSP approach).

Turning specifically to IDA, the presentation set out some specific facts. Between 2003 and 2005, IDA has mobilised \$23 billion and was able to fund 40% of its costs internally. Of the money that is disbursed, 21% is in direct grants to a number of areas including conflict and HIV/Aids. IDA holds 25% of HIPC debt and the use of PRSPs is mandatory as the basis for debt relief and concessional lending. The allocations vary from \$3 to \$10 per capita and a large slice of its funds go to Africa (44%) (see Table 2 in Annex 1). In Africa and Asia, the World Bank/IDA is the largest multilateral and is often the largest single donor in country. The World Bank actively promotes PRSPs, which are the basis for their lending, by assisting and commenting on PRSP processes and final documents. IDA tends to work in most sectors and is hugely influential in budget support discussions. It convenes Consultative Group meetings which have proved to be a good mechanism for co-ordinating aid. Moreover, the World Bank is often a lead agency in harmonising donor activities and processes in-country.

There have been some emerging policy issues for the MDBs. While the benefits of RDBs is to have regionally focused institutions that can adapt to the needs of the region, it is evident the many RDBs are strongly influenced by the World Bank and are increasingly - arguably excessively - following the World Bank's lead in terms of policies and practices, especially in terms of their soft windows. If the World Bank continues to decentralise, what is the added value of RDBs? Other emerging policy issues include: the proliferation of global programmes; the basis on which PRSPs are formulated (needs or resources?); and the need to reform the governance of these institutions and the voting powers of countries.

Future reform to MDBs will require a number of issues being addressed. Currently, the relationship of many MDBs to the UN and UNDP is unstable and this eventually needs to be resolved. There is a related question on who handles the funds for global public goods activities, such as communicable diseases. For the World Bank, it is increasingly apparent that the US government and its selection of the President of the Bank play a pivotal role in the direction of the Bank's policies and reforms. Finally, a concern for all development partners is the World Bank changing its operations in such a way and increasing the number of areas in which it takes the lead that it results in 'imperial overstretch'.

Discussion

Participants welcomed the opportunity to discuss the MDBs and the World Bank and IMF in particular. Some participants felt that it was particularly necessary to discuss these institutions as many of the changes that have recently taken place are disadvantageous to recipient countries. For many, the reason for this is that the World Bank does not have knowledge of what is happening on the ground so can not base their decisions on reality.

The World Bank, in particular, formally supports the notion of country ownership and has set it out as one of the six core principles of the PRSP approach. However, there is no clear idea of what is meant by this and so very often it is not addressed seriously in discussions. For some participants, their experience of working with the World Bank and IMF has been positive and the projects and programmes introduced and the advice on debt management have been hugely beneficial. Although it is the case that most programmes are decided in Washington, some felt that the Bank and Fund were open to learning and were willing to adopt nationally devised programmes.

This was not the experience of other participants who felt that programmes are enforced by the Bank and Fund from Washington without sufficient knowledge of the country context or priorities and there appear to be no attempts to introduce mechanisms to ensure that recipient governments take on the ownership of aid management. It was felt that often development related topics such as national security, the loss of earnings due to the removal of preferences, social security issues and, crucially, growth issues and the productive sectors were not included in discussions with these institutions. Furthermore, it was thought that the World Bank tends to link aid to strict activities and conditions which are then also adopted by RDBs making the government's position very difficult and reducing its room for flexibility. Participants agreed that all donors should accept that there must be a local dialogue at the technical level on policy reforms, not one-size-fits-all.

In terms of the PRSP specifically, participants questioned the basis on which PRSPs are financed. Is it based on needs or a resource envelope? To date, most PRSPs place poverty reduction as an end in itself rather than the emphasis being placed on creating pro-poor economic growth to achieve development objectives. Another concern about PRSPs is how the macro-economic framework is formulated? PRSPs are not often well linked to budgets which makes the macro-economic framework very difficult to implement.

A significant part of ensuring country ownership is by including all sections of society in policy processes. However, PRSP participation processes to date have generally been superficial poverty diagnostic consultations which aim to get public approval of the plan rather than allowing a full discussion in the formulation stage. If the World Bank is serious about country ownership, it will need to give serious thought to institutionalising PRSP participation processes. However, some participants were cautious about the populist elements of the PRSP approach as it is possible that full country ownership can lead to a non-reformist strategy.

Finally, it was recommended that more emphasis was placed on the regionalisation of development co-operation. Within a regional context, each country would be able to build up its strength as a player.

Session 5: The European Union (EDF and Budget instruments): status, challenges, opportunities and possible directions of travel

Presentation

Sven Grimm presented on the European Union (EU) and followed the format of outlining some facts, the EU's role, EU policy trends and issues and current choices about reforms and future direction.

EU ODA and official assistance (OA) have both risen over the years (see Figure 3 in Annex 1) which can partly be explained by changes in the membership of the EU. In 2002, the EU's total budget was 100 billion Euros, a 10th of which was on external action. However, this does also include aid to prospective Member States (OA by DAC definition). A large slice of the ODA goes to Sub-Saharan Africa (39.5% in 2001-02 see Figure 4 in Annex 1). In terms of the allocation of ODA, 19% goes towards support for social services, 19% for transport and 15% each for support for macro-economic policies, institutional capacity building (including good governance and the rule of law), and other areas.

There has been an increase of aid channelled through the Commission from Member States (up to around 11% of all global ODA). There has been a relative decline in the

EDF while there has been an increase in expenditure happening outside the ACP regions. Currently, the EU is in discussions on its Financial Perspective 2007-2013. It is proposed that there should be a cap on EU expenditure which may affect external assistance. There is also a recommendation for a reduction and combining of instruments which could mean a move away from a regional approach. This discussion also includes the issue of EDF Budgetisation. This could mean that the EDF will be on an annual budget cycle which will make it difficult for the EU to make long-term commitments. This raises a number of issues concerning how development funds will be safeguarded and what this will do to the EU's partnership principles.

The *raison d'être* of the EU is peace and reconciliation in Europe and this has been achieved through creating supranational institutions for economic cooperation. The 'external relations' part of the EU's role is a historical 'spill-over' from integration of European states, which has an effect on their national external relations. Poverty reduction is one of many goals in the EU, together with integration of developing countries' economies into the world market, sustainable economic and social development and the promotion of human rights, democracy and the rule of law.

Other issues emerging concerning the EU's policies on development co-operation is that increasingly trade is seen as a tool for development. There is also the issue of how to balance development concerns with other policies such as agriculture, fisheries, consumer protection, migration etc. The establishment of a Common Foreign and Security Policy is likely to raise questions on how the EU engages in development issues. Finally, the enlargement of the EU will affect the development agenda as new member states are inclined to push the development agenda in new directions.

Sven Grimm concluded by presenting two axes with two questions about the future direction of the EU: will the Europeanization of development policy increase or diminish and will the EU's policies become more or less pro-poor. The EU holds a unique position in the international aid system. It is not a bilateral, but is not strictly a multilateral either. The EU has been careful to sit on the fence. It does not hold power within the IFIs but is in a strong position in the WTO. The EU could provide a truly integrated approach for international challenges - or act as a strong bully. The main question for developing countries is: is there a 'Third European Way' to engage with developing countries? Is there an appealing 'European Dream'?

Discussion

There were a number of participants that had a long relationship with the EU, especially through the Cotonou Agreement, and welcomed the opportunity to discuss the EU. One of the main benefits of the Cotonou Agreement is that it is very good to have a contractual agreement that monitors and regulates the whole development partnership. Many felt that it was the best example of partnership between the North and the South. The Cotonou Agreement started having mid-term reviews in April 2003 which, for many countries, was too early to be reviewing the principles contained in the agreement. However, some issues did emerge from this review. There was some concern that the old ideas that were in the Lomé agreements still remain and there are many cases where decisions are still taken unilaterally. The challenge for recipient governments is to keep the EU to its own understanding of the term 'partnership'.

The 'essential elements' in the Cotonou Agreement act as conditions for funds to be disbursed. Since the Cotonou Agreement was first introduced, the EU side has brought a new essential element into discussion which is the global collaboration against the proliferation of weapons of mass destruction, plus the 'fundamental element' of dedication to combating terrorism. These elements, however, do not hold

the same significance for many countries in the South and there are questions as to why it has been included. The discussion continued on what activities occur within the Cotonou Agreement. In some countries, the budget for institutional capacity building was increased but some governments were not entirely happy that this was very heavily weighted towards good governance and the rule of law. There is also a perception that resources will increasingly be linked to trade with a 'suspension clause' on preferential trade. It was recommended that the EU should focus on strengthening research institutes which are then able to support to the formulation of the PRSP.

In terms of the EU's operations, there are some favourable experiences of the EU reducing its focus to a few sectors where it has the most skills thereby streamlining its engagement. In general, however, participants felt they would like to have more control over which sectors the EU focused on. In terms of the EU's procedures, it was not seen in a very favourable light mainly because its systems are cumbersome which results in delays in disbursements of resources. However, the EU is trying to improve its systems and speed up disbursements.

There is a European dream for some people living in developing countries aspiring to achieve the standard of living that most Europeans have. It would be good if the EU could help developing countries achieve a bit of Europe's development.

Day 2

Session 1: Comparative advantage of multilateral institutions: a matrix scoring exercise

Day 2 began with a participatory exercise to compare the strengths and weaknesses of multilateral agencies.

A matrix scoring exercise² was used to try and quantify the participants' perceptions of donor agencies. The participants were divided into two groups (one English speaking and one French speaking) and carried out a pair-wise comparison and matrix scoring exercise of five donor agencies. The donor agencies in this exercise were: World Bank, UN, EU, DFID and AFD. In the pair-wise comparison, groups took pairs of agencies and asked: "comparing these two agencies, what is (donor A) really good at?" The characteristics that emerged were written down as 'best practice' characteristics of donor agencies. The five donor agencies were then scored against the 'best practice' characteristics. Three marks for an above-average performance, two marks for average and one mark for a below-average performance. The groups were encouraged to debate and change the scoring as much as they liked until they were satisfied with the scoring. See Annex 2 for the matrix for each group.

The results of the groups were not intended to give concrete statistical evidence but rather to give an impression of the participants' perception of the donor agencies and their comparative advantages. It is important to note that both groups had significantly more knowledge of one of the bilateral organisations than the other (the English speaking group had more knowledge of DFID and the French speaking group had more knowledge of AFD). This affected the scoring as the groups tended to give low or no scores to the bilateral agency with which they were unfamiliar. The groups reported back with some interesting points that had emerged from the exercise:

² For more information on matrix scoring exercises, see Maxwell, S (1997) 'The use of matrix scoring to identify systemic issues in country-programme evaluation' in *Development in Practice* Vol 7(4): 408-415

- It was noted that some agencies received higher scores than would have been expected after the discussion that had taken place in Day 1. For example, one group gave the EU three points for partnership, two to the UN, while the others got one point. The same group attributed no points to the UN on the criterion of 'integrated approach', with two points on this aspect for other donors and three for the EU. With regard to 'importance of funding' the EU came second after the World Bank.
- One group had a large number of technical 'best practice' points with more focus on the procedural and programme elements rather than macro policy issues which meant that the UN, which had been scoring badly on the macro policy issues, scored quite well overall because of their relief response and technical assistance programmes.
- There were some interesting overall institutional patterns. For example, the World Bank tended to score either very high or very low-to nothing, meaning that where it was present it had major impact, or, conversely, it was absent or failing, but rarely "so-so". By contrast, DFID scored marginally higher overall (though this had no statistical significance), because it was recognised as having strengths in more areas, though often to a lesser extent, and no heavy negatives.

A discussion followed where participants raised questions they had about some of the 'best practice' points that had been included and some of the scoring. Some questioned whether the high score given to the UN in one group was a 'sentimental' score not based on reality. DFID's high score in one group was also questioned and it was asked whether this had less to do about their behaviour but rather a bias because many participants know DFID well. Participants in that group, however, did not agree and said that the scoring was because DFID had done well or average overall which reflected a growing sense that DFID has moved to integrating aid, trade and security agendas which not only gives it a holistic view but also better working practices. While the reasons for different perceptions regarding the bilateral agencies can be linked to the level of familiarity with the agency, participants were unsure why the two groups gave such different scores to the EU and the UN.

All participants felt it had been a useful exercise and had allowed them to learn examples of each others' experiences in a short time. It was thought that it would be useful to include civil society in future exercises to get the grass-roots' perception on donor agencies. Finally, it was thought that this exercise of understanding the comparative advantages of donor agencies could feed into future discussions and actions on donor co-ordination.

Session 2: Conclusions, lessons learnt and future action

Simon Maxwell led the concluding discussion by setting out some of the core 'best practice' principles for donor agencies. He set out these core principles in two groups representing broad policy principles of engagement and institutional, practical principles for managing aid. The first group, above the line, contained attributes of legitimacy and good process, whereas the second was mostly about speed, volume and efficiency-two dimensions which tend to be in creative tension, at the national and international level:

Partnership
Coherence
Multiple instruments

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Vision
Flexible
Owned by Least Developed Countries
Decentralised

Available resources
Efficient
Quick
Cost-effective
Skilled

As the matrix scoring exercise showed, agencies tend to score well either above or below the line but rarely consistently well in all areas. The question posed for developing countries is would they rather have an agency that performed well against the principles below the line and that the principles above the line do not matter as much or is it the other way round? Some participants felt that if the issue at hand is managing resources then the governance of the agency or its partnership principles do not matter. However, if recipient governments are working with an agency to decide on policies then the principles above the line matter a great deal. It was agreed that the key for all donor agencies is striking a balance between the two sets of principles and reforms to improve in areas above and below the line.

The participants were then divided into groups of two and asked to come up with one suggestion to the following questions: what should be done to change the aid architecture? Below is the list of ideas that emerged:

- Trust fund for the Secretary General of the UN
- Changes to the voting structure in the World Bank
- Donor Co-ordination Secretariat
- Strong alignment and harmonisation together with multi-year budget support
- Strengthening civil society
- Using the EU partnership structures in the World Bank
- Developing country presence on OECD-DAC's Development Committee
- Independent monitoring group at country level
- Single UN Development Authority
- World Aid Report (produced by a donor co-ordination secretariat suggested above)

Participants were questioned on the necessary criteria for achieving change. The first criterion is that donors would have put into practice their commitment to supporting and following national processes and priorities. For this to happen there would have to be capacity building in areas of public financial and expenditure management. Changes also need to be politically feasible within a realistic time-frame and civil society needs to be included. Encouraging competition in the aid industry can also advance changes. All recommendations for change need to be closely scrutinised to assess whether they will actually succeed as failed reforms will only further harm the international aid system. Finally, it will be necessary to have progressive reform that can be taken forward in a step-by-step approach.

Future actions

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The workshop concluded with the co-Chairs setting out the future actions. A report with the discussions and conclusions from this workshop will be circulated to participants for their comments. A finalised synthesis document will be ready by March/April. This document will then be passed to the Secretary-Generals of the Commonwealth Secretariat and the AIF who will write to the Heads of State of member countries and to the Heads of State of the G8 together with the document to show the issues and recommendations raised in this consultation. It was also recommended by participants that the document is also sent to EU, UN and MDB representatives.

Practical action points are still needed. To get these, the Commonwealth Secretariat and the AIF propose to hold three regional consultations which will be extended to include civil society and the private sector. These consultations are planned for Francophone Africa, Anglophone Africa and Asia-Pacific. Again, participants recommended that in-country donor offices are included in some of this discussion.

Finally, it was pointed out that there are a number of other processes that are on-going on reforming the international aid system. The Commonwealth Secretariat and AIF have an obvious comparative advantage in running this sort of consultation but it is important that this process is fed into the other processes to ensure that there is no duplication of activities and that common goals are pursued jointly.

Zaza Curran
February 2005

Annex 1

Table 1: Total net flows from DAC countries by type of flow

	1987- 1988 average	1992- 1993 average	1999	2000	2001	2002	2003	% change
I. Official Development Assistance	43 834	58 318	53 233	53 749	52 435	58 292	69 029	16%
1. Bilateral grants and grant-like flows	23 479	34 133	33 931	33 040	33 522	39 813	50 965	22%
of which: Technical co-operation	9 043	13 279	13 036	12 767	13 602	15 452	18 366	16%
Developmental food aid (a)	1 745	1 723	1 045	1 180	1 007	1 086	1 196	9%
Emergency & distress relief (a)	704	2 918	4 414	3 574	3 276	3 869	5 874	34%
Debt forgiveness	240	2 849	2 277	2 045	2 514	4 534	8 338	46%
Administrative costs	1 541	2 503	3 049	3 083	2 964	3 027	3 524	14%
2. Bilateral loans	6 956	6 756	3 912	3 024	1 602	939	-1 153	
3. Contributions to multilateral institutions	13 399	18 364	15 390	17 685	17 311	17 540	19 217	9%
of which: UN (b)	3 251	4 425	3 654	5 185	5 233	4 634	4 705	1%
EC (b)	2 275	4 207	5 017	4 950	4 946	5 695	6 834	17%
IDA (b)	4 762	5 636	2 834	3 672	3 599	3 279	3 120	-5%
Regional development banks (b)	1 897	2 450	1 860	2 187	1 491	1 813	1 734	-5%
II. Other Official Flows	3 022	8 567	15 589	-4 326	-1 589	-45	-1 127	
1. Bilateral	3 181	7 646	14 640	-4 303	-797	2 401	-1 597	
2. Multilateral	-159	922	949	-23	-792	-2 446	470	
III. Private Flows at market terms	21 491	49 803	115 999	78 128	49 745	6 252	30 481	
1. Direct investment	21 202	33 309	94 314	71 729	66 041	36 286	36 660	
2. Bilateral portfolio investment	319	18 396	25 575	2 416	-14 946	-26 902	-6 611	
3. Multilateral portfolio investment	2 033	-2 297	-5 786	-3 369	-4 086	-3 146	635	
4. Export credits	-2 064	396	1 896	7 352	2 736	14	-203	
IV. Net grants by NGOs	4 123	5 848	6 715	6 934	7 289	8 765	10 162	
TOTAL NET FLOWS	72 470	122 539	191 536	134 485	107 881	73 263	108 545	
Total net flows at 2002 prices and exchange rates (c)	87 226	119 083	182 612	134 043	112 019	73 263	95 956	
a) Emergency food aid included with developmental food aid up to and including 1995.								
b) Grants and capital subscriptions, does not include concessional lending to multilateral agencies.								
c) Deflated by the total DAC deflator.								
Source of private flows: DAC Members' reporting to the annual DAC Questionnaire on total official and private flows.								

Table 2: IDA: outstanding development credits and associated charge income

In millions of U.S. dollars equivalent

Region	2004		2003	
	Charge Income	Development Credits Outstanding	Charge Income	Development Credits Outstanding
Africa	\$344	\$45,954	\$359	\$42,579
East Asia and Pacific	123	16,328	102	15,072
Europe and Central Asia	38	4,864	28	3,609
Latin America and the Caribbean	33	4,770	26	4,311
Middle East and North Africa	27	3,245	22	3,034
South Asia	317	40,582	279	38,272
Total	\$882	\$115,743	\$816	\$106,877

Figure 1: Channelling aid to developing countries (2002)

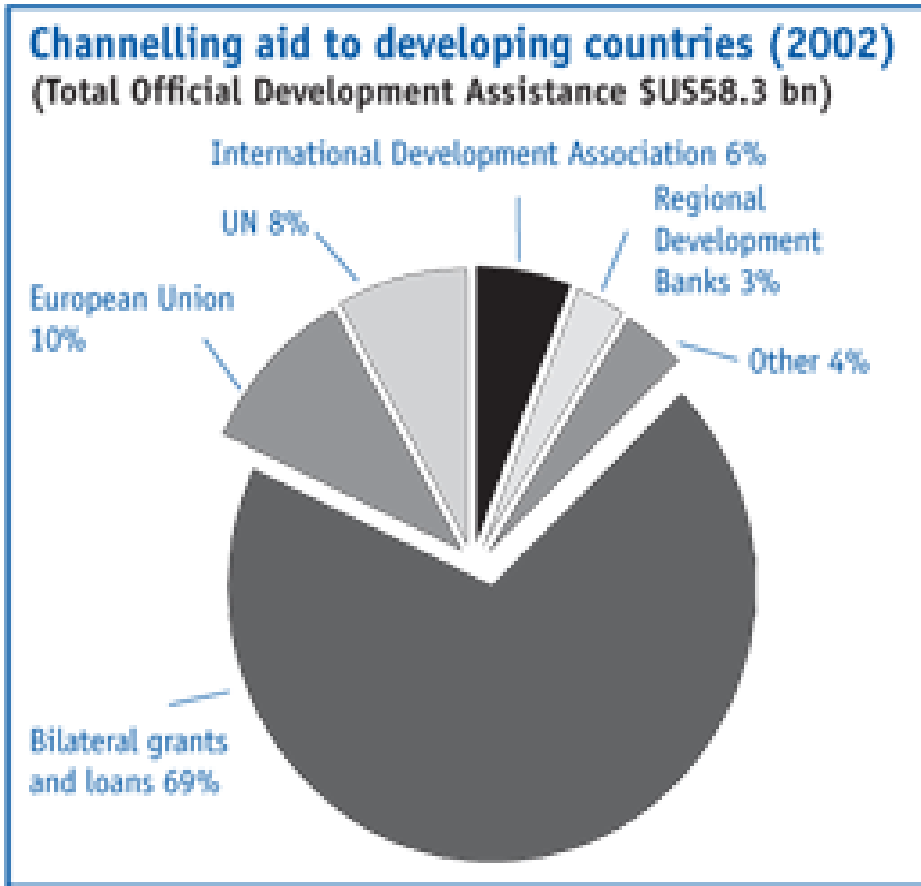


Figure 2: ODA through the UN system 2003

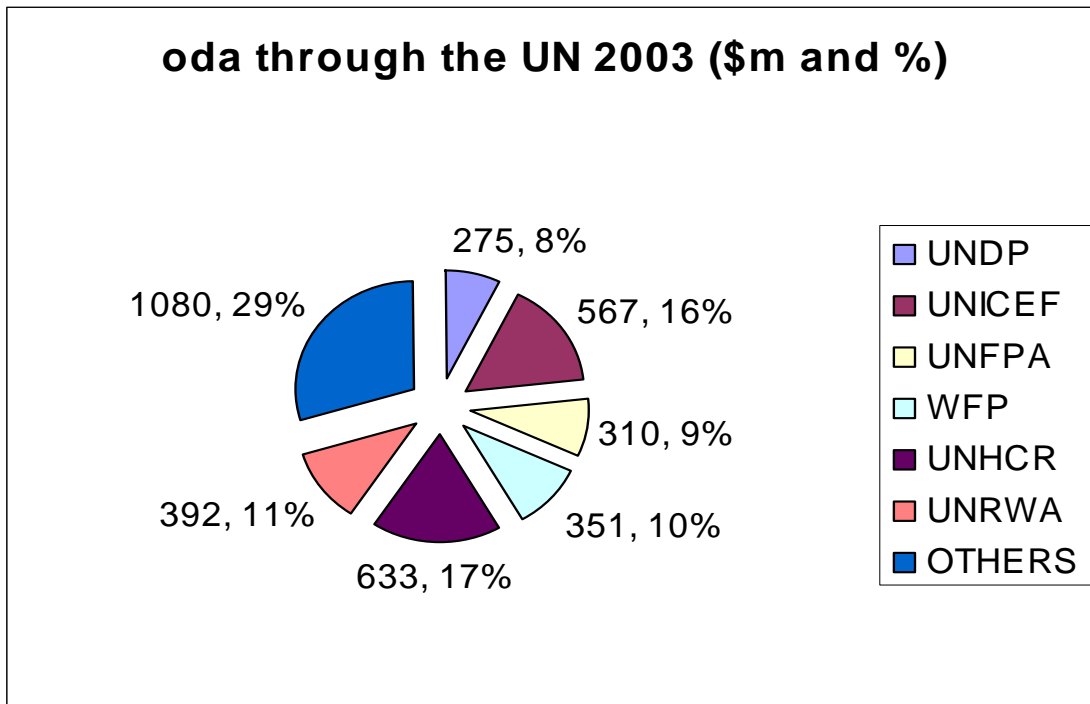


Figure 3: Official development assistance and official assistance from the EC

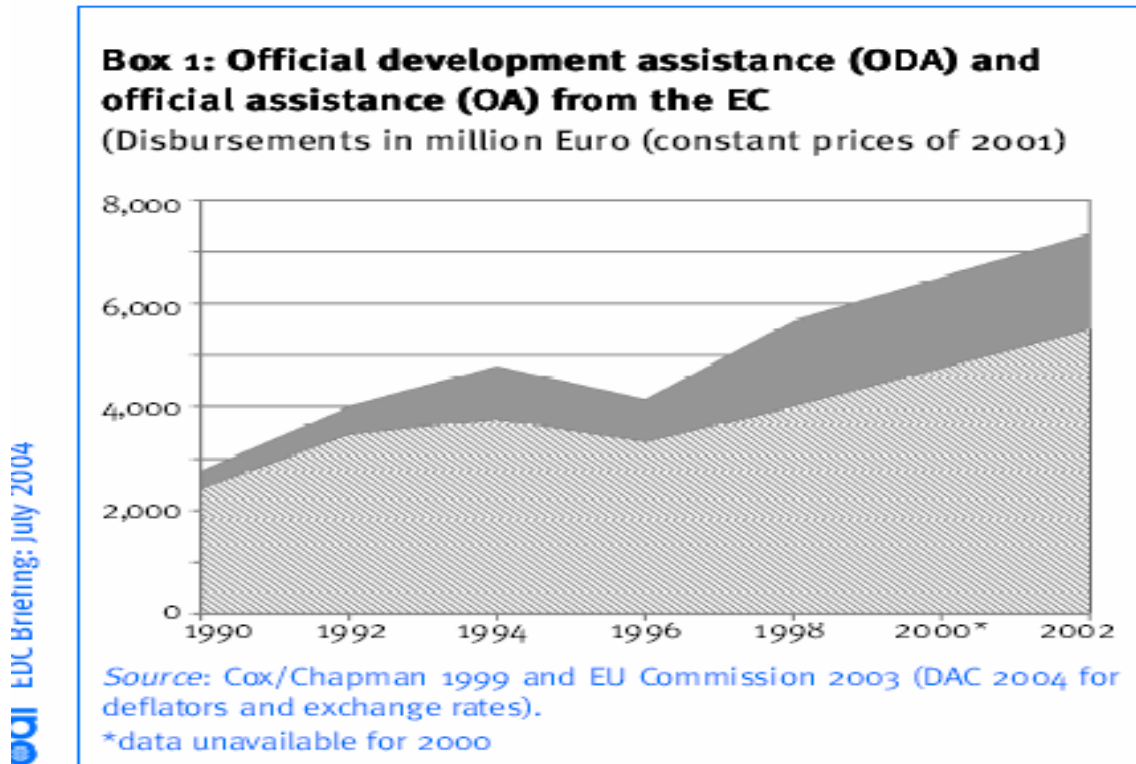
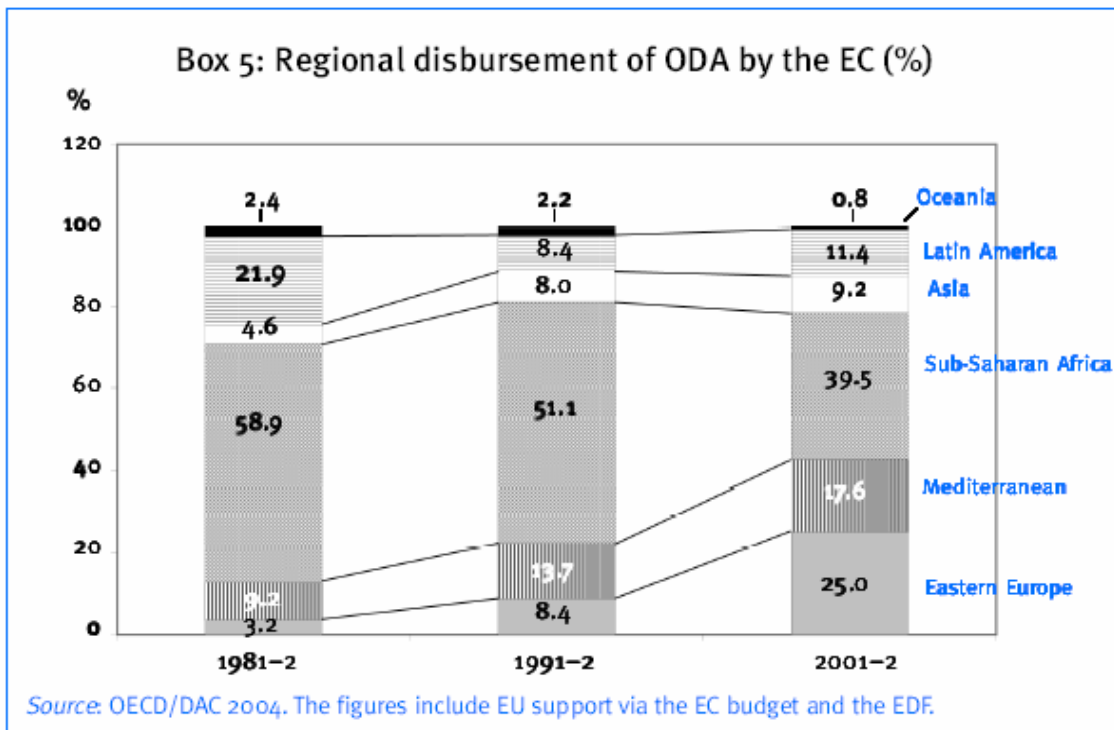


Figure 4: Regional disbursement of ODA by the EC



Annex 2: Matrix scoring exercise results

Group 1

[the French will need to be translated where my GCSE didn't stand up to it!]

	World Bank	AFD	EU	DFID	UN
<i>Importance de moyens</i>	3	1	2	1	1
Visibility	1	1	3	0	2
Financial transparency	2	0	3	0	2
<i>Legere bureaucratie</i>	2	2	1	2	2
Supporting the role of the state	1	1	3	2	2
Pro-poor <i>interet social</i>	2	2	3	3	2
<i>Pas de decalage Ambitions – Moyens</i>	1	1	3	1	1
<i>Partenariat</i>	1	1	3	1	2
Coherence	1	2	3	1	2
<i>Receptivite/Proximite</i>	1	2	2	1	3
Technical assistance	3	2	1	1	3
<i>Aide moins liee</i>	3	1	2	1	3
Country knowledge	2	2	2	3	2
Willingness to co-operate	2	2	3	3	2
<i>Moins ideologie</i>	1	2	2		3
<i>Previsibilite l'aide et contractualite</i>	2	2	3	2	1
Integrated approach	2	2	3	2	0
Alignment to government systems	2	2	3		1
Flexibility	2	2	2	1	3
Liberalite (element don)	1	2	3	2	2
Easy mobilisation of resources	2	3	2	2	2
<i>Interet universel (multilateralisme)</i>	3	1	3	1	3
Decentralisation (<i>gestion</i>)	1	2	3	1	2
<i>Procedures de decassements rapides</i>	2	3	1	3	3
Long-term engagement	2	2	3	2	3
<i>Rigueur</i>	3	1	2	1	1
Macroeconomic knowledge	3	1	3	1	2
Total	51	45	67	38	55

[Note: This group scored zero for very poor performance and left scoring blank if they had no knowledge of a donor's performance against a particular point]

Group 2

	UN	AFD	DFID	EU	World Bank
Broad (macro) policy view	2	1	2	2	3
Knowledge bas cross country	2	2	3	2	3
Manageable/specific conditionality	3	1	2	1	1
Country-led priorities	2	1	2	3	3
Regional lends and programmes	2	3	3	3	2
More focused and specialised	2	3	3	2	2
Economic crisis response	1	1	2	2	3
Poverty focus	2	2	3	2	3
Link with trade	1	2	2	3	2
Infrastructure funding	1	2	2	3	3
Private sector capability	1	2	2	2	3
Microfinance/microenterprise	2	2	2	2	2
Capacity Building	3	1	2	2	3
Partnerships co-financing	2	1	3	2	3
Relief and humanitarian response	3	1	2	2	1
Public financial management focus	1	2	3	1	3
Untying	3	1	2	1	3
Micro innovation and flexibility	3	2	3	1	2
Speed of disbursement	3	2	3	1	2
Wide range of facilities	2	2	2	3	3
Grant element	3	1	3	3	2
	44	35	51	43	49

[Note: This group had limited knowledge of AFD apart from one participant]