



**Commonwealth Secretariat and La Francophonie Workshop  
The Future of Aid: User Perspectives on Reform of the International  
Aid System**

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**Background Paper**

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This document has been prepared for the Commonwealth Secretariat and La Francophonie Workshop and is a slightly amended version of the background paper by the same name prepared for the stakeholder workshop that was held in Dhaka, Bangladesh, on 20-21 March 2006 as part of the same project on the Future of Aid.

## Background Paper for Workshop Participants

### I. Context: the importance of 2005 and why aid architecture matters

Times of rapid change in the overall aid funding climate are an opportunity to make conscious and non-marginal decisions about how the international aid system functions and how to make its seemingly haphazard “architecture” work better. The year 2005 was particularly important in that respect. That year, at least two major developments took place affecting aid. The first was a series of commitments to increase aid, which if fulfilled will effectively result in a doubling of aid volume by 2010. According to OECD DAC estimates, official development assistance (ODA) will go from around US\$65bn at present to around US\$130bn in the next five years. The second was the signing of the Paris Declaration on Aid Effectiveness, which has set benchmarks for “scaling up” aid both in terms of quantity and quality.

More aid, of better quality, more effectively used. That would seem to mark an important milestone in improving the international aid system. However, there is unfinished business – and if the voices of recipients are not heard clearly now, the resulting outcomes may not be what those stakeholders want or expect.

One key issue is, of course, that implementation remains a major challenge. Not all the increases in aid that have been announced are secure. Not all countries will find it easy to implement the harmonization and alignment agenda, with difficulties likely to be felt among both donors and recipient countries. And there will be particular problems in what have come to be identified as “fragile states”.

In addition, and the principal subject of this workshop, the increase in aid throws into sharp relief some strategic questions about the future architecture of the international aid system. Even with the full implementation of the Paris agenda, the industry will be characterized, all else being equal, by a large number of players, complex institutional arrangements, relatively high transactions costs, and, often, poor accountability. Some of the questions that need to be addressed include:

- What should be the distribution of aid between countries, and how should recipient countries be selected? Where do middle-income countries fit in?
- What are the main similarities and differences between bilateral and multilateral aid institutions? What are the comparative strengths and weaknesses of each? Do they complement each other or do they tend to overlap in their activities?
- What should be the balance between multilateral and bilateral aid? At present, 70% of aid is bilateral and 30% multilateral. Is this the right mix?
- How many aid agencies should there be, especially in the multilateral field? Does the alignment agenda mean that the world only needs one large agency, to channel money into government budgets? Or is there some merit in diversity and a degree of competition?
- What should be the future role of the multilateral development banks?
- What should be the role of vertical funds, like the Global Fund to fight AIDS, Tuberculosis and Malaria (GFATM)? Do vertical funds genuinely provide *additionality* (meaning that they must not displace existing programmes, but instead add new activities or coverage), including via contributions from the private sector? How can they be coordinated with other aid windows?
- How can the quality of aid agencies be measured and improved? How good are the indicators currently used, like DFID’s Multilateral Effectiveness Framework (MEFF)? What is the role of multi-donor evaluations, as for example that undertaken by the Tsunami Evaluation Coalition?

- How can accountability within the aid system be improved? In particular, what is the role of mutual accountability (mutual peer review, devices like the African Partnership Forum)?

It is important to note that these questions are much debated internationally, as well as within the research community. However, a starting hypothesis for this workshop is that many of these questions are not being answered satisfactorily, including in the Development Assistance Committee of the OECD or in ECOSOC. In particular, Southern Voices are conspicuously absent in what is largely a donor-determined agenda.<sup>1</sup> At the same time, decisions are being made on an *ad hoc* basis rather than in a more systematic manner. This is problematic because it deprives the aid system of rationality, reliability, predictability, and forward planning, and thereby pre-empts a strategic conversation. The replenishment of the IDA and/or the EU Financial Perspectives are examples of such improvised approaches.

This paper is organised as follows. After analysing the forces currently shaping the international aid system, it looks at recent aid trends and highlights interesting regional developments. It then provides a section on bilateral and multilateral ODA at a glance, before briefly summarising the roles of the main multilateral institutions (including Regional Development Banks, the World Bank's International Development Association, the United Nations system; and the European Union/European Community), and some of the challenges they currently face. It moves on to discuss "special purpose vehicles" and the threats these may pose to multilaterals; the division of labour at the country level and "comparative advantage"; and other performance criteria for judging multilateral aid from a recipient perspective. It ends with a series of questions for general discussion.

## II. Forces shaping the international aid system

There is no recognisable "architect" for the aid system as a whole, despite the fact that over 70 per cent of it is financed by the G8 and that policy influence is still largely aligned with financial contributions, even where formal voting control is not. Few large donors actively coordinate their own inputs and requirements across agencies; much less develop a disciplined collective approach to these choices with other donors.<sup>2</sup>

Multilateral replenishment decisions remain, on the whole, disconnected sets of context-specific negotiations, usually yielding marginal adjustments to the previous base. Political attention in member capitals ebbs and wanes, allowing agency management to build *ad hoc* alliances and blocking minorities.

This situation makes for great stability, or conversely, inertia. Today, the international aid system consists of a loose aggregation of more than 90 aid agencies, and it continues to expand. The latest newcomers include the Millennium Challenge Corporation (MCC), launched by the USA, the GFATM, and the still unborn International Financing Facility (IFF) and the pilot IFF for Immunization (IFFIm).

In addition, some countries that until very recently were aid recipients are becoming donors themselves. These "emerging donors" include countries like Brazil, Russia, India, China, and South Africa, or the so-called "BRICS". While the emergence of these new donors has been welcomed because there is a widespread belief that their presence will offer greater choice to aid recipients, there are also concerns in some quarters that new donors may undercut standards to which traditional donors aspire and encourage unsustainable policies in some developing countries.<sup>3</sup> On the other hand, the OECD DAC, which is behind efforts to scale up aid through the Paris Declaration, is relatively small club of wealthy and mostly Northern donors. Emerging donors like China have not been able to become members of the club yet. This raises an important question: Can these new donors be expected to play by OECD DAC rules and abide by the Paris Declaration if they are not part of the club?

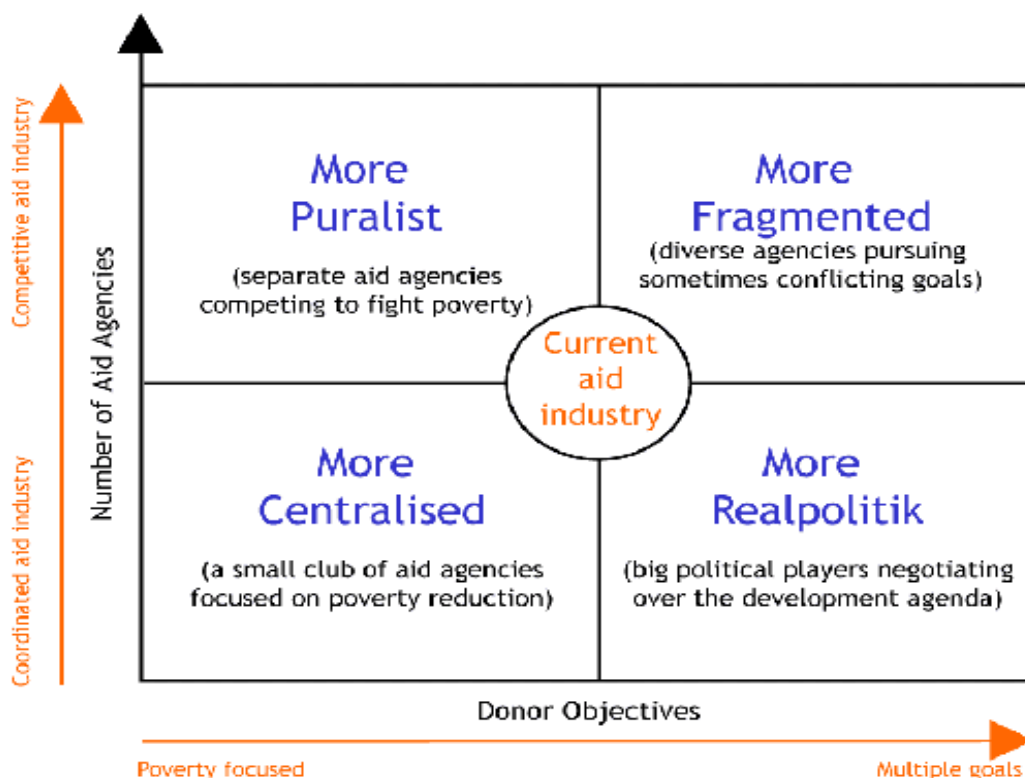
The market structure for aid resembles nothing as much as one Wal-Mart and a whole string of corner shops. It would be both unstable and monopolistic in a genuine market, socially inefficient and politically unacceptable. But this is not a market, and it is not well regulated. No major aid institution has closed in several decades, while dozens have opened, as aid's share of the global economy has shrunk steadily from the 1980s until recently. The irony is that, unlike supermarkets and shops, the same owners – rich country governments – control all the outlets. They could decide for things to be otherwise, if they had the will.<sup>4</sup>

So what is driving current governmental and intergovernmental aid? Four underlying factors can be identified<sup>5</sup>, some ongoing, and some new:

- *Multiple foreign and security policy objectives*, that may or may not be bundled with anti-poverty goals, with no common weighting system.
- The continued existence of *institutional barriers* insulating aid programmes to different extents from hard budget constraints and political pressure attached to them.
- *Reduced willingness, or ability, to use aid in its current form* at both ends of the recipient spectrum: more advanced countries reject foreign intrusion; weaker countries badly need aid but cannot demonstrate the ability to use it.
- *Symbiotic relationships with private and voluntary organisations*, partly funded by official aid, but competing with it for taxpayer attention.

As illustrated in Figure 1 below, there are, arguably, two general axes along which future scenarios for the aid system could evolve from this starting point, each with its extreme. On one axis, there is a greater deliberate poverty focus versus a more fragmented, foreign-policy-driven focus. The second axis scales an aid system less subject to competition and much more directed by a major international collaborative effort (as foreseen, for example, in the 2003 Rome aid harmonisation conference and the 2005 Paris high level meeting on aid effectiveness) versus one subject to different forms of inter-agency competition or rivalry.

**Figure 1: Possible scenarios for the future of the aid system<sup>6</sup>**



By combining elements of these two dimensions, we can visualise scenarios which impact the aid architecture in quite different ways. For the purposes of the workshop, two polar opposites are instructive. In one (“fragmented”), there is a dominance of multiple foreign-policy considerations for aid, especially for fragile states, and agencies are competing overtly for available funding against multiple and inconsistent criteria. In this world, multilaterals in general are under pressure but some, by virtue of their financial endowments and flexible governance, adapt much better than others. Under this scenario, while there may be healthier competition for funds, the proliferation and fragmentation of aid agencies may impose undue burdens on recipient governments confronting a large number of donors, all with different priorities, and the overall aim of using aid to promote development and combat poverty may be water downed.

In the second scenario (“statist”), benevolent donor interests collude in support the MDG/country-owned model under a coherent global and local governance umbrella in which recipient voices are supposedly heard with full force. In this world, the coordinating role of the UN and EC is vastly strengthened, including vis-à-vis the Bretton Woods institutions and bilaterals, and indeed there is “forced” consolidation of the number of actors at country level. Aid budgets (aligned exclusively with poverty outcomes) are growing fast, but becoming selective, as low-income, aid-dependent countries face effective donor cartels. Under this scenario, the international aid system is much better organized and acts with much greater coordination and coherence toward the goal of reducing poverty, but recipient countries may be left with little choice as to the different strategies they would like to pursue relying on different donors, and they may feel their voices, concerns, and priorities are getting drowned as they face a “wall” of donors.

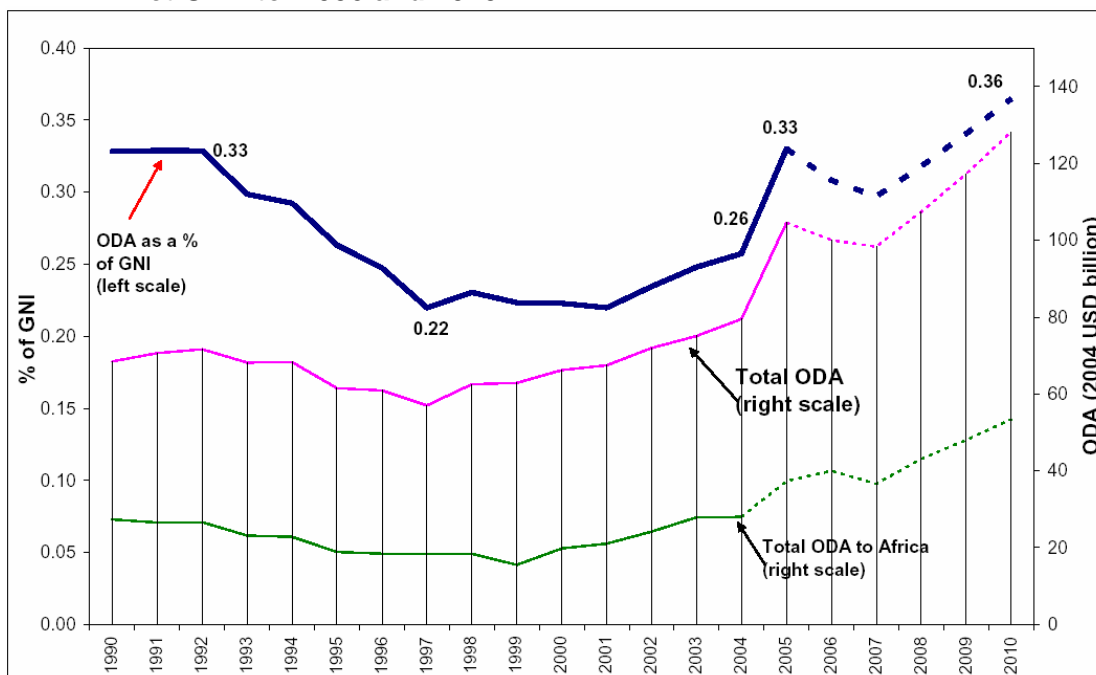
Obviously, neither of these extremes is a prediction: elements of both are likely to be present in the future, and other drivers of change will affect outcomes. They are illustrated here to introduce discussion of how recipients may wish the aid system to evolve, and under what real-life constraints.

### III. Recent aid trends

In recent years, aid flows have seen significant shifts. Overall ODA levels (from DAC donors) have been increasing again after having dropped during the 1990s. Net ODA from DAC members in 2004 stood at US\$79.5 billion, reflecting an increase of 5.9 per cent from the 2003 level (which amounted to \$69.1 billion).<sup>7</sup> According to the OECD DAC *Development Co-operation Report 2005*, this increase shows the first evidence of the major scaling up of aid promised by donors at recent international meetings.

These flows are expected to increase further, as donor countries start delivering on the commitments made in 2005 at the G8 Summit at Gleneagles in July as well as elsewhere. As shown in Figure 2 below, if donors deliver on the public statements they have made, the DAC estimates that ODA from the main OECD donors will increase by approximately US\$50 billion, reaching US\$130 billion in 2010. This represents the largest expansion in absolute levels of ODA as measured by the OECD DAC since the committee was formed in 1960, if not in the proportion of gross national income. Still, ODA as share of donor GNI was 0.25 percent in 2004, and even on pledges, DAC donors' aid effort is expected to reach only 0.32 percent by 2010, well below the 0.7 goal (*2005 Development Co-operation Report*).

**Figure 2: DAC Members' net ODA 1990 - 2004 and DAC Secretariat simulations of net ODA to 2006 and 2010**



Source: OECD DAC 2006

It is also important to point out that organisations like ActionAid (2005) and others have argued that, despite such high profile commitments by donors to dramatically increase aid flows to poor countries, much of this aid remains “phantom” in the sense that it does not represent a real resource transfer to recipient countries.<sup>8</sup> While the debate between “real” vs. “phantom” aid has not been settled, it underlines the need for improving aid quality – that is, ensuring that maximum benefit is extracted from existing aid flows.<sup>9</sup>

A few regional developments are worth highlighting:

- As can be seen from the figure above, the sharpest percentage increase in ODA is likely to occur in Africa: the level of aid to that continent alone is expected to reach around US\$50 billion in 2010.

- In 2003-2004, 35.8% of total ODA by DAC members went to Sub-Saharan Africa; while the EC devoted 44.3% of total ODA to that region; IFIs 43.1%; and the UN system 37.7%. In all these cases, ODA to Sub-Saharan Africa represented the largest regional component of all aid disbursed.<sup>10</sup>
- Aid is also increasing in Asia, although both Afghanistan and Iraq account for a large share of the additional volume.
- On the other hand, the tsunami is likely to produce greatly increased figures for 2005: according to the Tsunami Evaluation Coalition (TEC (2005)) more than US\$14bn were raised toward that cause.
- The recent earthquake in Pakistan is also likely to increase aid volumes to Asia.
- Aid to Latin America has declined over time, mostly due to its “Middle Income” status.
- In both Asia and Latin America, trade and remittances are beginning to play a much larger role than aid in national economies.
- As reflected by the statistics below, a majority of countries in Africa, however, remain highly aid dependent.
  - According to the *Human Development Report 2005*, ODA received per capita in 2003 (net disbursements) was US\$3.4 in East Asia and the Pacific; US\$4.3 in South Asia; and US\$9.9 in Latin America and the Caribbean; compared to US\$32.9 in Sub-Saharan Africa. This is equivalent to 0.5% of the GDP in East Asia and the Pacific; 0.7% of the GDP in South Asia; 0.8% of the GDP in Latin America and the Caribbean; and 18.6% of the GDP in Sub-Saharan Africa.<sup>11</sup>
  - The *Human Development Report* also shows that Sub-Saharan Africa is the only region of the world where ODA as a percentage of GDP has increased from 1990 to 2003 (going from 12% to 18.6%). Aid as a share of the GDP has decreased everywhere else.<sup>12</sup>
  - Total aid flows to Sub-Saharan Africa amounted to US\$ 25,530.01 million in 2004.<sup>13</sup>

#### **IV. Bilateral and multilateral ODA at a glance**

The rationale for having aid agencies at all – whether bilateral or multilateral – as against relying on direct money transfers between donor and recipient treasuries, is linked to the agencies’ role as mediators between the different preferences of different donor and recipient constituencies<sup>14</sup>. If there were full and costless information, trust and mutual accountability, this argument goes, we would not need such intermediaries. Their know-how, only a small part of which is proprietary, could be made available in other forms on the open market and much simpler and more stable arrangements for resource transfer could be designed and enforced.

Through this lens, multilateral agencies have distinct advantages. Though they account for only 30 percent of total ODA disbursed (bilateral aid constitutes the remaining 70 percent), multilateral agencies allow a channel for collective action which contains competition or conflict among donors. They are characterised by better balanced, more effective aid allocations – which enables countries that would otherwise be donor “orphans” to have access to needed resources. While it is important to recognise that multilaterals have not always promoted the “right” policy to foster development and combat poverty in poor countries, they have played an important role in strengthening the legitimacy and credibility of unpopular programmes (e.g. economic reform) that nonetheless have produced positive results. Given economies of scale and scope, they can significantly reduce the costs and increase the credibility of policy-relevant information, and they have broader and deeper capacity for research, advice and development innovation at the service of developing countries. Multilateral agencies also provide recipients with a voice in decision-making, however limited that may be.

Bilaterals, on the other hand, have some comparative advantage as well. Because of their historical engagement with countries and/or regions over time, they have a deeper knowledge

and a better feel for the politics of change in-country. Bilaterals are also believed to have greater coherence of aid with non-aid policies like trade, security, and migration. In some cases, they may also have greater flexibility than multilaterals, allowing them to (re)act with greater speed to certain situations.

Of the \$79.5 billion of ODA in 2005, approximately 70 per cent was in the form of bilateral ODA and 30 per cent was delivered as contributions to multilateral institutions. This 70-30 ratio for bilateral and multilateral ODA has remained virtually constant since 1995. What has changed, however, is the nature and sectoral composition of aid, as explained below.

Over time, bilateral ODA has moved towards a stronger emphasis on grants, with the amount of bilateral aid in the form of grants rising from 89 per cent in 1995 to 98 per cent in 2002. In contrast, thirty years ago, grants were only 66 per cent of bilateral ODA. There has also been a change in the composition of these grants. Bilateral ODA has shifted further towards special purpose grants such as technical cooperation<sup>15</sup>, emergency disaster relief, food aid, and debt relief. These categories carry less flexibility in their use than assistance available in cash or assistance delivered through programmes or projects, and they do not necessarily transfer real resources of equivalent value.

The *2005 Global Monitoring Report* estimates that only a quarter of bilateral ODA in 2003 went to “structural” development programmes and project expenditures, down from one third in 2001, while this type of assistance overwhelmingly dominates multilateral assistance. That suggests multilateral institutions provide almost the same amount of programme and project aid as bilateral donors. This is important because, as the *Global Monitoring Report* points out, more flexible aid will need to be provided if the MDGs are to be achieved, including providing a higher proportion directly to countries in the form of cash or budget support, supporting good policy performance with predictable and longer-term aid commitments, and allowing for the financing of recurrent costs where country circumstances warrant. Technical cooperation is complementary, to the extent that it transfers useful knowledge and skills, creating enabling conditions which raise the effectiveness of programme and project expenditures.

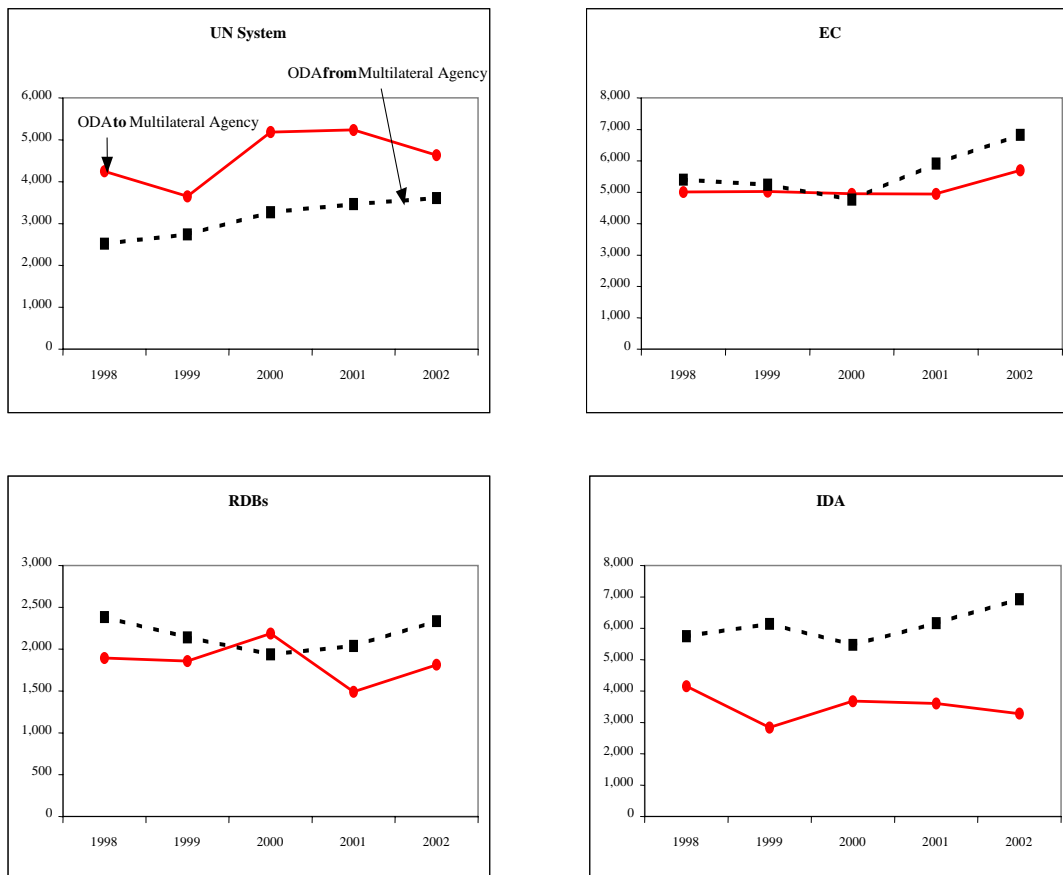
**Table 1: Official Development Assistance from DAC Donors to Developing Countries and Multilateral Institutions, 1993-4, and 2000-2004 (millions of US\$)**

	1993-1994 average	2000	2001	2002	2003	2004
<b>Official Development Assistance (ODA)</b>	57 484	53 749	52 435	58 292	69 085	79 512
1. Bilateral grants and grant-like flows	34 329	33 040	33 522	39 813	50 908	57 322
of which: Technical co-operation	12 911	12 767	13 602	15 452	18 352	18 764
Developmental food aid (a)	1 733	1 180	1 007	1 086	1 196	1 169
Emergency & distress relief (a)	3 359	3 574	3 276	3 869	6 221	7 332
Debt forgiveness	3 077	2 045	2 514	4 534	8 338	7 084
Administrative costs	2 571	3 083	2 964	3 027	3 520	3 999
2. Bilateral loans	5 665	3 024	1 602	939	-1 153	-2 937
3. Contributions to multilateral institutions	17 489	17 685	17 311	17 540	19 330	25 126
of which: UN (b)	4 205	5 185	5 233	4 634	4 694	4 925
EC (b)	4 399	4 950	4 946	5 695	6 946	8 910
IDA (b)	4 788	3 672	3 599	3 279	3 120	5 700
Regional development banks (b)	2 548	2 187	1 491	1 813	1 734	2 275

Source: OECD DAC, *Development Co-Operation Report 2005*

The bulk of multilateral ODA flows through the UN system, EC, Bretton Woods institutions (Bank/IDA and Fund), and Regional Development Banks (RDBs) such as the AfDB, AsDB, and IDB.<sup>16</sup> The assistance provided by multilateral institutions to countries eligible for ODA is relatively evenly split between loans and grants. DAC donor contributions to multilateral institutions have held steady in recent years (see Table 1 above). Over time, however, donor contributions to multilateral institutions have generally seen a shift away from IDA and the RDBs towards the UN and the EC (see Figure 3 below).

**Figure 3: Multilateral ODA to and from UN, EC, RDBs, and IDA (millions of US\$)**  
 (Note: these charts were prepared by Paolo de Renzio using data from the OECD DAC)



The multilateral banks have however been able to generate a significant proportion of their resources from repayments on existing loans. For example, though donor contributions to IDA have held roughly constant or fallen slightly, disbursements from IDA to recipient countries have somewhat increased, accounting for about 35 per cent of gross multilateral disbursements (Table 2). Conversely, UN system agencies as a group disburse less than they receive. This is both because, unlike the banks, they have no independent income source to cover administration, and more significantly, because some of them are primarily sources of advice in kind, not financial intermediaries.

**Table 2: Gross Disbursements of Concessional Finance (loans and grants)\***

(in millions of US\$)	1998	1999	2000	2001	2002
<b>UN System</b>	<b>2,521</b>	<b>2,741</b>	<b>3,272</b>	<b>3,462</b>	<b>3,608</b>
UNDP	604	508	390	282	275
UNICEF	484	564	576	600	567
UNFPA	214	185	133	311	310
WFP	270	354	357	379	351
UNHCR	236	253	493	545	633
UNRWA	298	286	301	359	392
Others	415	591	1,022	986	1,080
<b>European Commission</b>	<b>5,396</b>	<b>5,238</b>	<b>4,763</b>	<b>5,908</b>	<b>6,831</b>
<b>Regional Development Banks</b>	<b>2,383</b>	<b>2,142</b>	<b>1,937</b>	<b>2,040</b>	<b>2,334</b>
AfDF	624	516	360	464	741
AsDF	1,149	1,114	1,135	1,031	1,168
IDB	610	512	442	545	425
<b>IDA</b>	<b>5,742</b>	<b>6,135</b>	<b>5,468</b>	<b>6,160</b>	<b>6,923</b>
<b>Total</b>	<b>16,042</b>	<b>16,256</b>	<b>15,440</b>	<b>17,570</b>	<b>19,696</b>

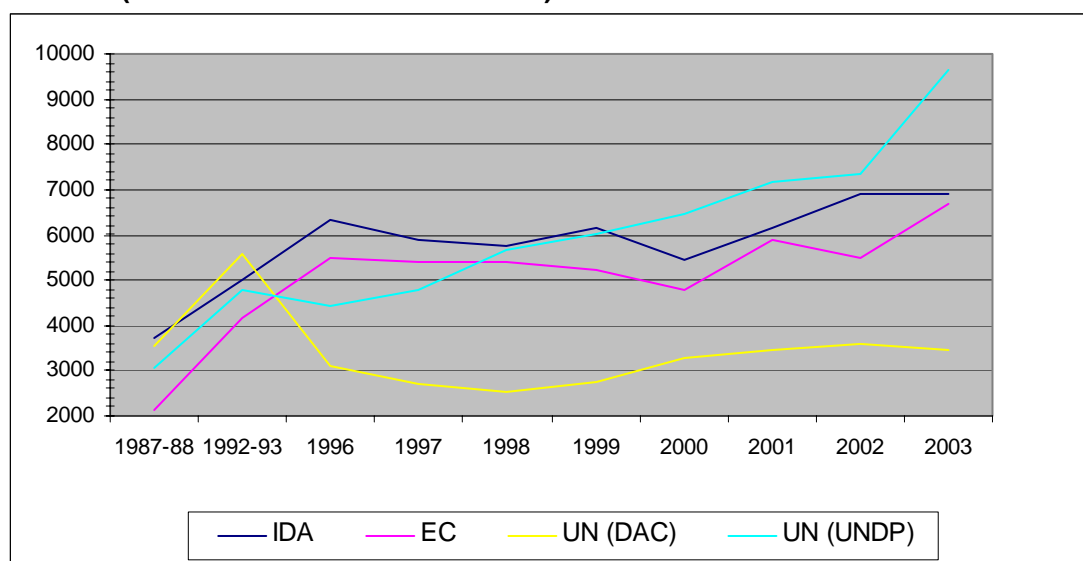
\* Annual data is on a calendar basis. Country coverage for institutions is not identical.

Source: 2003 OECD DAC report

This picture significantly underestimates the role of the non-concessional windows of the Multilateral Development Banks (MDBs), such as the main World Bank window (IBRD), and regional equivalents, as well as the IMF. By definition, when operating in upper-middle income countries as well as by virtue of their market-related terms, these are not scored as ODA but clearly have a major role in the “aid politics” of middle-income countries, and in global net flows. Repayments to the World Bank, unlike to IDA, virtually cancel out new disbursements, which means that on a net basis, the RDBs as a group are becoming steadily more significant for middle-income countries. By that standard, the EU is already the single largest net source of funds to middle-income countries, and likely to remain so.

It is also important to note that there is a big difference between ODA data reported (which is based on core resources only) as opposed to throughput that also includes funding from other, non-core sources. When this is taken into account, a fact that some may find rather striking can be observed: the widespread idea that the UN funding is being squeezed out between the more obligatory funding requirements of the IFI’s and the European Union does not seem to be confirmed by the relevant statistical data. It is rather to the contrary. Some analysts use the DAC-data, but do not sufficiently take into account that multilateral aid for the DAC-statistics is limited to core contributions and expenditures. However, it would seem much more relevant to use the common definition of multilateral aid: aid that is channelled to and through multilateral agencies. If this latter definition is used, then contributions to the UN development system are higher than expected – and surpass those of the IDA and the EC (see Figure 4 below).<sup>17</sup>

**Figure 4: Evolution of gross disbursements for IDA, EC and expenditures for UN (1987-2003 in million US dollar)**



Source: OECD/DAC Annual Reports and Information on United Nations system regular and extra-budgetary technical cooperation expenditures, 2003, DP/2004/37/Add1.

On the other hand, if contributions to the UN development system are up since a number of years, there is still a problem with the relationship between core and non-core resources. The pendulum has switched much too far towards non-core contributions (see Table 3 below). This observation is true for the Funds and Programmes as well as for the Specialized Agencies. It is clear that a rebalancing between both forms of contributions is necessary, as the General Assembly, ECOSOC, and other UN funds and programmes have repeatedly emphasised.

**Table 3: Evolution of Core and Non-core contributions to UNDP, UNICEF, UNFPA and Specialized Agencies (1992-2004) in million US\$**

	1992	1994	1996	1998	1999	2000	2001	2002	2003	2004
<b>UNDP Core</b>	1.074	943	855	758	681	634	652	663	770	842
<b>UNDP Non-core</b>	408	447	916	1.348	1.393	1.376	1.569	1.707	2.015	2.792
<b>UNICEF Core</b>	707	679	516	578	586	597	541	697	721	791
<b>UNICEF Non-core</b>	213	327	425	388	500	516	639	702	967	1.187
<b>UNFPA Core</b>	233	255	232	269	244	257	260	247	289	322
<b>UNFPA Non-core</b>	5	11	43	36	30	130	104	92	86	128
<b>Agenc. Assessed</b>	219	280	270	297	444	470	424	479	518	
<b>Agenc. Extra budg.</b>	650	651	647	853	976	1.178	1.189	1.032	1.467	

Source: OECD/DAC Annual Reports and Information on United Nations system regular and extra-budgetary technical cooperation expenditures, 2003, DP/2004/37/Add1.

In terms of sectoral distribution of ODA, recent years have witnessed a shift away from productive sectors such as industry and agriculture, and an increased focus on the social sectors. Social infrastructure and services have been an important area for all donors, given that the needs are immense, and the objective of attaining MDGs all too imminent. IDA devotes 40

per cent of its resources to this area, while the RDBs, UN, and bilateral donors providing upwards of 30 per cent of their support in this category.

In parallel with social sectors, an important focus of RDBs, IDA and the EC has been on economic infrastructure and production sectors, as compared to bilateral donors and UN agencies. EC and IDA provide 14 per cent of their resources for structural adjustment and programmatic assistance. The EC also provides significant resources to “food aid” (10 percent) and “emergency and distress relief” (18 percent). Perhaps not surprisingly, the UN is the dominant agency in terms of providing food and other relief aid (over 60 per cent of resources).

## **V. The roles of the main Multilateral Institutions<sup>18</sup>**

This section looks at some of the main multilateral institutions that make up the international aid system. It provides a brief summary of the roles of Regional Development Banks (RDBs), the World Bank’s International Development Association (IDA), the United Nations (UN) system, and the European Union/European Community (EU/EC) respectively, and points to some of the challenges and issues each of these multilaterals is currently facing.

### *Regional Development Banks (RDBs)*

There are three main Regional Development Banks that play key roles in promoting the development of countries in their regions. These banks – the African Development Bank, the Inter American Development Bank, and the Asian Development Bank – function similarly to the World Bank in that they provide highly concessional assistance to the poorest countries for both project financing and budget support, and include performance-based indicators in their allocation formulas. These creditors often depend on the policy work and programmes of the IMF and IDA to create the development framework and performance track records on which to base their country programmes. The RDBs work closely with the Bretton Woods Institutions to provide the co-financing needed to support the development goals and policy reform efforts of specific countries. Some of the key challenges that RDBs need to confront include the following: distinguishing themselves more clearly from the World Bank and develop their own areas of specialisation; identifying their comparative advantage and becoming innovative risk takers rather than acting merely as cash machines; overcoming the sense among recipient governments that RDBs are too much trouble to deal with; and how to engage in Public-Private Partnerships (PPAs).

### *International Development Association (IDA)*

IDA is the soft loan window of the World Bank, and it supports countries in their development efforts by promoting policies to secure the basis for economic growth and poverty reduction. IDA has a role as an instrument for structural and investment climate reform, alongside IMF programmes focusing on macroeconomic stability. IDA and IMF assist governments to establish a policy and fiduciary framework that is expected to promote the effective use of aid flows from other development partners. IDA is the world’s largest source of concessional financial assistance for the poorest countries and invests in basic economic and human development projects. IDA’s resources are provided in the form of zero-interest loans and some grants. Grants go mostly to poor post-conflict and debt-distressed countries.

One of the biggest challenges that the IDA faces is that of legitimacy: because donors make all decisions related to replenishment issues, there is a sense among recipient countries that they don’t have any input into IDA and that it is an institution dominated by donors. The question of grants vs. loans is also an important issue within IDA. While approximately half of IDA’s income is provided by donors, about 40 percent of it is funded internally, including through the repayment of past loans – so moving further towards grants could choke off an important flow of

resources sustaining IDA.<sup>19</sup> Thus, it seems essential to strike a proper balance between grants and loans so as not to overburden poor countries struggling with unpayable debts while at the same time maintaining the financial viability of IDA.

### The United Nations (UN) System

One of the UN's central mandates is the promotion of higher standards of living, full employment, and conditions of economic and social progress and development. As much as 70 per cent of the work of the UN system is devoted to accomplishing this mandate. The UN has played a crucial role in building international consensus on action for development. The UN continues formulating new development objectives in such key areas as sustainable development, the advancement of women, human rights, environmental protection and good governance – along with programmes to make them a reality. The UN system works in a variety of ways to promote economic and social goals. The UN programmes and funds carry out the UN's economic and social mandate. The UN Development Programme (UNDP), the UN's largest provider of grants for sustainable human development worldwide, is actively involved in attaining the Millennium Development Goals. The UN Children's Fund (UNICEF) is the lead UN organization working for the long-term survival, protection and development of children, focusing on immunization, primary health care, nutrition and basic education. Many other UN programmes work for development, in partnership with governments and NGOs. The World Food Programme (WFP) is the world's largest international food aid organization for both emergency relief and development. The UN Population Fund (UNFPA) is the largest international provider of population assistance. The UN Environment Programme (UNEP) works to encourage sound environmental practices everywhere, and the UN Human Settlements Programme (UN-Habitat) assists people living in health-threatening housing conditions.

However, the UN system often gets criticised for being inefficient in its attempts to promote development. Critics argue that UN initiatives and approaches are dispersed, uncoordinated, and get lost in a sea of administrative requirements. The UN Secretary General himself has identified the need to reform UN structures radically.

As part of this effort, Secretary General Kofi Annan unveiled a series of proposals to reform the UN in a report for the MDG Summit in September 2005. Among other things, Annan's *In Larger Freedom: Towards development, security and human rights for all* included a section on Security Council reform, and dealt with ECOSOC, a proposed Human Rights Council to replace the widely discredited Human Rights Commission, the role of the Secretariat, issues of system coherence, the humanitarian response system, and governance of the global environment. With respect to ECOSOC, the proposals were consistent with the recommendations of the High Level Panel, especially that the Council should serve as a high-level development cooperation forum.

The MDG Summit itself made progress on some of these issues. In particular, it decided on the creation of a Peace Building Commission and on changes to the human rights machinery of the UN. It also encouraged the Secretary General to continue with internal administrative reforms. There is reference in the outcome document to further reform, particularly around the idea of three tightly-managed entities (for development, the environment and emergencies).

Following on that, in February 2006 the Secretary General announced the formation of a new high-level panel to explore how the UN system can work more coherently and effectively in areas of development, humanitarian assistance, and the environment. The study provides an important platform for discussion of the future of multilateral aid. It is intended to lay the groundwork for a fundamental restructuring of the UN operational work, complementing other major reform initiatives currently under way, including the creation of the new Peacebuilding Commission, the recent approval of the new Human Rights Council,<sup>20</sup> and a proposal for comprehensive management reform that the Secretary-General is expected to announce shortly. The panel is expected to complete its work by the summer, to allow for formal presentation of its

recommendations to the next session of the UN General Assembly in September 2006 and possible implementation in 2007.

### *The European Union/European Community (EU/EC)*

The EU is a multilevel policy arena and a multifaceted political actor. One key legal and political distinction to be made is between the European Community (with a strong role of supranational institutions such as the European Commission) and the European Union (comprising community institutions and the Member States alongside each other). The Commission's role "is to initiate and formulate the EU's development cooperation policy for all developing countries as defined in Title XVII of the Treaty establishing the European Community, and to co-ordinate the relations with the sub-Saharan African, Caribbean and Pacific countries (ACP) and the Overseas Countries and Territories (OCT)." The EC's development cooperation policy is one of three elements within the broader framework of the EU's external relations. It sits alongside the Union's external political relations (following mostly an intergovernmental rationale) and its largely supranational, Brussels-driven economic relations (including trade and investment). The EC plays a substantial role in all three areas, albeit to varying degrees as pointed out above.

The EU is the largest trading partner for many developing countries – though it is not as strong a presence in the Asian context. It provides approximately 55 percent of global development assistance, amounting to €34.3 billion in 2004. Of this amount, €6.9 billion were administered by the EC.<sup>21</sup> These funds come from the Community budget as well as the European Development Fund (EDF). In order to maximise its own impact within the global development framework, the Commission is focusing its assistance in 6 areas where it claims to add particular value: the link between trade and development; regional integration and cooperation; support for macroeconomic policies and equitable access to social services; transport; food security and rural development; and institutional capacity building in particular good governance and the rule of law.

After some internal administrative and policy reorientation in the area of EU external relations since 2000 – involving a number of new strategies and the administrative devolution to Commission's Delegations in partner countries – the current dynamic is particularly visible in the field of foreign policy. For external relations more broadly, the Commission is increasingly aspiring to formulate common goals and set benchmarks for the now 25 Member States' policies in development cooperation. Examples of these new aspirations include:

- the Monterrey conference (2002) commitment to increase ODA, and the subsequent timetable of March 2005 to reach the 0.7% ODA/GDP ratio by 2015
- the formulation of a "European Consensus on development" (2005)
- the European Security Strategy (2003)
- the establishment of an Africa Strategy (2005), with strategies for the Caribbean and the Pacific under construction

These aspirations will not necessarily result in strengthening of the Commission because of internal competition among different EU institutions. However, the current developments are likely to create more coherence in EU positions in international fora, i.e. a stronger European factor in international relations. Some of the main issues the EU is currently facing are how far EU members should harmonise/coordinate their activities (i.e. should there be a joint EU position at country-level?), and what the balance of spending between middle and low income countries should be.

## **VI. "Special purpose vehicles" and threats to conventional multilaterals**

Although they did not capture a prominent share of ODA as of 2002, the rapid recent rise in visibility of global thematic funds, such as that to combat Aids, TB, and Malaria (GFATM) and

the IFF for Immunization (IFFIm), raises important issues for recipients and for the future of the multilateral system.

Their creation was in large part a response to the perceived failures of “big aid”, including that of the World Bank and the WHO, to mobilise fast and far enough against exponentially expanding global threats (Rogerson 2004)

GFATM is only the most visible example, along with its longer-established parallel in the environment arena, the Global Environment Fund (GEF), of a whole category of new international aid ventures. Many of these do not have fully independent legal status from their sponsors, but serve as transit points for significant amounts of ODA. They often have distinct management and governance structures, but hardly ever direct in-country representation.

Moreover, while some of these were formed in response to global public goods issues such as environmental commons and communicable diseases, others collect resources at the supranational level but channel them directly into country programmes with benefits at the family, community and national levels. An example is the Education for All Fast-Track Initiative (FTI), designed to accelerate primary school completion in low-income countries, which assists individual countries through a common analytical and funding framework.

These “special purpose vehicles” could be a minor consideration for this workshop, but for three related concerns. First, their recent growth has been explosive: GFATM for example, which was only created in 2002, has attracted US\$8.6 billion in financing through 2008, and it currently manages pledges of some US\$4 billion to support programmes in more than 100 countries, with plans of extending well beyond that.<sup>22</sup> Such growth is connected to the widespread political appeal in donor countries of well-focused, single-issue responses to powerful advocacy campaigns, as against more diffuse, less tangible approaches based on recipient ownership. The litmus-test global issues may change, and past enthusiasms may not be sustainable, but such political pressures will inevitably re-surface in other forms.

Second, it is not easy to integrate such devices well into recipients’ national strategies and budgeting frameworks, especially when they are based on cross-country competitive tenders on a project-by-project basis. Vertical funds may therefore have a tendency to cut across country alignment and national priorities, which also means that they can impose unnecessarily high transaction costs. Another criticism that has been levied against these funds and that has to be addressed is that they often act in a way that supersedes, or at least acts in parallel to, existing international aid agencies. A central challenge is that they need to be adapted better to the current consensus model on aid effectiveness, which already faces a daunting coordination task.

Third and most important, if ODA rises by even 3 per cent per annum in real terms overall, much faster for large donors committed to reach the UN 0.7 per cent target in the next decade (like the UK and France), the “classic multilaterals” like IDA, the EU, the RDBs and the UN may have serious trouble maintaining their shares of donor aid. This is because they are constrained by burden-sharing formulas to temper their ambitions for growth – they can go no faster than their least enthusiastic large contributors want. Also, and this is especially true for multiyear negotiations such as those for the EDF, their funding windows may not be flexible enough to adjust to a rapidly changing external context.

A real pledging increase of say 20 per cent over five years sounds generous, but actually only barely maintains the previous share of ODA for the average donor. For those whose ODA:GNI ratios are set to rise strongly, and who also, for the most part, care about multilateralism, it implies an eroding share. By default, if “conventional” multilaterals do not meet this challenge (perhaps by developing new offshoots of their own), new and special-purpose vehicles will grow even faster, or the overall multilateral share will fall.

## VII. Division of labour at the country level and “comparative advantage”

Underlying the aggregate aid figures and trends highlighted above is a more complex set of issues that has shaped recent debates about the country and global aid architecture. A new paradigm of “effective aid” has ostensibly emerged that, at least in principle, is based on the concepts of country ownership, a compact between donors and recipient countries to work in partnership to promote development, and mutual accountability. Among other things, this new approach calls for streamlined conditionalities and selective, performance-based aid allocations. The harmonization of donor policies and procedures, and their alignment to support national poverty reduction strategies, are seen as fundamental steps towards increasing the effectiveness and impact of development assistance towards reaching the MDGs. Progress towards these goals is still uneven among countries and donors, but significant improvements are noticeable in several countries – despite well-established incentives to the contrary.

Charting the way on how aid can be made more effective in practice is the *Paris Declaration on Aid Effectiveness*, which includes a series of commitments from both donor and recipient countries to improve the quality of international development assistance.<sup>23</sup> Following the Paris High Level Forum held in February/March 2005, the DAC has developed a set of 12 indicators to measure progress on aid effectiveness and promote greater mutual accountability.<sup>24</sup> Signed by over one hundred donor and developing countries, the Paris Declaration represents a significant step forward in establishing “a set of monitorable targets for changes in donor, recipient, and joint behaviour” which may well embody the most advanced attempt at providing “the core of a new compact on mutual accountability” (Rogerson 2005). The indicators cover issues such as country ownership, alignment and harmonisation, managing for results, and mutual accountability. Clear and formal targets have been developed for the first 11 indicators, while the general objective on the last indicator, which focuses on mutual accountability, is to ensure that by the year 2010 all partner countries have mutual assessment reviews in place to ensure that both parties are honouring their commitments. No indication is given, however, on the proposed nature and mechanisms for such reviews to take place.

It is interesting to note that for the most part these indicators cover commitments related to the quality of aid delivery, and not to the overall levels and allocation criteria utilised by donors. In addition, they are still fully contingent on donor assessment of recipient performance. This means, for instance, that donors commit to rely more on national systems, but only in as far as such systems achieve a level of quality that donors deem acceptable, through processes that are not yet transparent. For example, the baseline adopted for measuring progress on the reliability of Public Financial Management systems in recipient countries relies on CPIA (Country Policy and Institutional Assessment) scores, which are carried out by the World Bank and are not yet made publicly available.

Importantly, donors are not homogeneous and they often rely on different standards to determine the “adequacy” of different national systems, so that some donors may well choose to rely on the systems of particular recipient countries while others will not. An interesting characteristic of the process set in motion by the Paris Declaration is that mutual assessment reviews will allow recipients to highlight the behaviour of donors not reaching the agreed targets, and potentially convince them to comply through “naming and shaming” and peer pressure mechanisms.

Given the large number of institutions providing development assistance improving the effectiveness of the system as a whole will depend crucially on assessing the actual value added of each one of them in terms of contributing to the stated goals of sustainable development and poverty reduction in developing countries. This in turn should lead to specialization and consolidation, whereby each institution would focus more and more on the areas where it is best equipped to contribute. A summary view of the existing areas of involvement in the global aid architecture (see Table 4) shows some of the overlaps and the overall lack of specialization. Most agencies are involved in similar areas, with all the inefficiencies that this implies.

**Table 4: Existing Division of Roles in the Global Aid Architecture**

Type of assistance	Special Purpose Funds				Projects & Programmes		
	Humanit Assistance	Emergency & Reconstr	Technical Assistance	Debt Relief	Project Finance	Sector Support	Budget Support
<b>Donor</b>							
<b>Multilateral</b>							
UN	✓	✓	✓	-	✓ <sup>2</sup>	-	-
IDA	-	✓	✓	- <sup>1</sup>	✓	✓	✓
RDBs	-	✓	✓	✓	✓	✓	✓
EC	✓	✓	✓	✓	✓	✓	✓
<b>Bilateral</b>							
DAC	✓	✓	✓	✓	✓	✓	✓

<sup>1</sup> No direct funding, but assistance in organization; <sup>2</sup> Limited support

The concept of comparative advantage, however, is not an easy one to unravel. According to basic economic thinking, in order to increase economic efficiency and maximise output, each agency should focus on the areas where it has a relative comparative advantage in terms of cost or capacity (production opportunities). In the more complex world of development assistance, comparative advantage may stem from a range of different factors:

- a) Mandate: the nature of each institution (multi- vs. bi-lateral, governance structure, grants vs. loans-based, statute, etc.) determines and limits its possible role in the overall aid architecture.
- b) Capacity/knowledge: the resources available to each institution in terms of technical expertise, production of and access to specific knowledge, participation in knowledge networks, etc. will also influence its positioning *vis-à-vis* other agencies.
- c) Cost structure: comparing cost effectiveness measures for different institutions in different areas (sectors, aid instruments, tied or untied aid, etc.) provides an indication of comparative advantage in the “production” and delivery of aid resources.
- d) Results record: past successes and failures in reaching stated objectives and achieving desired impact in specific sectors also highlights what each agency does best, or at least better than other agencies.
- e) Trust of partners: this is an example of “soft” comparative advantage that can be very important. A relationship of trust and cooperation with a recipient government, or in donor coordination fora, is clearly a very important asset for an aid agency, which will influence its potential role in the overall aid architecture, both at local and at international level.

Also, a sensible division of roles may have to be based on relative as opposed to absolute comparative advantage, and is likely to be constrained by other considerations such as the need for visibility of donor interventions, political imperatives, and the increasing concentration of donor efforts in well performing countries.

These factors are likely to interplay in a variety of different ways. For example, multilateral institutions may have a clearer development-oriented focus (as opposed to foreign policy objectives often pursued by bilateral agencies) and access to a wider range of knowledge skills and technical expertise. However, bilaterals could have a comparative advantage in specific sectors where they have developed a particular competence, rely on historical ties with a particular country for engendering trust and cooperation, or be able to tackle governance issues such as corruption in a more direct way.

At the same time, while the World Bank, say, may have more clout and better capacity in analysing and shaping recipient governments' economic policies, the UN, with its more open governance structure and its capillary presence at country level, may be relied upon by those same governments to assess and monitor the possible impact of reforms, or proposing alternative solutions. In this as in other matters, there may be tradeoffs between efficiency and legitimacy.

### **VIII. Initiatives to promote mutual accountability<sup>25</sup> in aid relationships in the African context**

As has been highlighted above, much of the current discussion about how to make aid more effective centres, among other things, around the concept of mutual accountability, whereby not only recipient governments but also donors are responsible and accountable to each other for their actions. Numerous initiatives have been launched or are being developed at the international level to attempt to achieve mutual accountability in practice. In the context of Africa, the main efforts on this front include the **Africa Partnership Forum (APF)**, the **Mutual Review of Development Effectiveness (MRDE)**, and the **Africa Peer Review Mechanism (APRM)**.

Composed of a combination of representatives of the G8, OECD, NEPAD, African Union (AU), the African Development Bank, and other regional economic communities (SADC, COMESA, ECOWAS, ECCAS, AMU, IGAD, and CEN-SAD), the APF was established at the G8 Evian Summit in 2003 to provide a venue for a broadened and more inclusive partnership between Africa and its development partners. Originally, the APF served more as a forum for discussion than as a body where binding decisions could be made. However, following an APF meeting in Abuja in April 2005, donors agreed at the G8 meeting in Gleneagles in July 2005 to elevate the APF to a high-level mechanism. The Forum is described as having two unique characteristics for this purpose: high level political representation as well as personal representatives reporting directly to their respective Heads of State or Heads of Organisation. The objective, backed by both donor and African representatives, is to use a strengthened APF as the political mechanism for establishing clearly defined benchmarks and measuring and monitoring progress for mutual accountability. As such, the forum is intended to represent a point of departure from past efforts in Africa's relationship with the donor world. The APF uses the NEPAD agenda<sup>26</sup> as its basis, signalling a commitment by donors to follow, at least in principle, the vision that African leaders have developed for the future of the continent, rather than imposing goals and objectives from the outside. While the joint-action plan on how to turn the APF into a more effective body of mutual accountability has not yet been finalised, the focus will be on fulfilling current commitments rather than elaborating new ones. In terms of aid, this means a reaffirmation of the Paris agenda and a commitment to make progress on the 12 indicators embodied in it.<sup>27</sup>

Parallel to this effort to strengthen the APF, the UN Economic Commission for Africa (ECA) and the DAC have also undertaken a joint initiative to develop the idea of mutual accountability through the MRDE. Originally requested by NEPAD, the review aims to develop a process in which African governments and their OECD partners can track the implementation of existing mutual commitments to promoting development in Africa. Commitments are intended to be monitored on a biennial basis through 'constructive, evidence-based dialogue' (ECA-OECD 2005). However, besides the publication of a joint ECA/OECD report on *Development Effectiveness in Africa. Promise and performance: Applying mutual accountability in practice*, the MRDE process appears to have run into difficulties. Most important perhaps is the fact that, despite having requested it in the first place, NEPAD never bought into MRDE politically and has distanced itself from it. This is mostly because the NEPAD leadership has called into question the legitimacy of ECA – a UN body – to speak for Africa and represent its interests. For the African leadership, the APF has been perceived as a more legitimate body of representation, and it is not clear how MRDE as a parallel track can function as an effective mechanism.

While the examples described above refer to mutual accountability mechanisms between donors and recipient governments, the APRM is an interesting example of an initiative that has been undertaken purely by recipient countries to enhance mutual accountability among each other. Launched by NEPAD, the APRM is an African self-monitoring mechanism voluntarily acceded to by Member States of the African Union. Its purpose is to ensure that the policies and practices of participating states conform to agreed political, economic and corporate governance values, codes, and standards and promote political stability, economic growth, sustainable development, and regional economic integration. The APR monitoring process takes place through periodic peer reviews to analyse and assess progress and performance among participating countries towards achieving mutually agreed upon goals in the areas of Democracy and Political Governance, Economic Governance and Management, Corporate Governance and Socio-Economic Development. The process also entails sharing experiences and identifying and promoting good and best practices as well as undertaking interventions to build capacity. The APRM itself is intended to be reviewed every five years.

The APRM is pioneering because it is the first such self-monitoring mechanism to emerge from the region to promote some form of mutual accountability among African governments. As a result, it enjoys a high degree of legitimacy among the African states that have so far chosen to take part in it, and it can be seen as the mechanism intended to fulfil Africa's part of the deal in the aid compact. The idea is to allow African states to evaluate their peers in a manner that will collectively raise the bar on governance standards and performance. As of May 2006, 25 countries had signed up to the Mechanism.<sup>28</sup> However, because it is purely voluntary in nature and lacks any formal enforceability mechanisms, its success rests on the level of commitment in participating countries and the effectiveness with which they manage the process. On the other hand, there is a recognition among donors that, because of its legitimacy among African states, the APRM represents the best institutional alternative available at the international level for engaging with Africa, and as such it is essential to work with it. Thus far, the APRM has passed its first two test cases involving Rwanda and Ghana, with the expectation that there will be more.

Interestingly, some recipient governments in Africa and elsewhere have begun to take meaningful steps in an attempt to hold the upper hand in their relationship with donors. Countries like Mozambique, Tanzania, and Uganda (and Afghanistan and Vietnam in Asia) have gained international recognition as relatively successful examples of recipient-led aid policies and donor management. Knowing that it could not persuade donors to channel all their resources through the government, for example, the Government of Afghanistan (GoA) has addressed the challenge of coordinating aid flows through the establishment of a number of mechanisms to set "hard" conditions for the acceptance of aid. Among other things, a rule on selectivity has been designed to limit the number of sectors any one donor can work in, and donors have accepted to focus on no more than three critical sectors each. If a donor wants to engage in more than three sectors, it has to meet a minimum requirement of a US\$30 million contribution per sector. In 2004, the GoA was also able to submit its own bid for resources to donors – proactively seeking the resources it needed rather than managing pre-planned donor projects and programmes. Ultimately, useful lessons like this one can only be drawn from looking at specific country level cases, some of which we hope to help build up from participants' experience.<sup>29</sup>

## **IX. Other performance criteria for judging multilateral aid from a recipient perspective**

More concrete discussions about donor performance at country level, which shed some light on some of the more technical aspects of the issue of comparative advantage, can be found in different reports published by Northern development NGOs. Oxfam GB and Debt Relief International, for example, have attempted to develop indicators of donor behaviour which could assist recipient governments in assessing the relative costs and benefits of dealing with a series of bilateral and multilateral aid agencies.

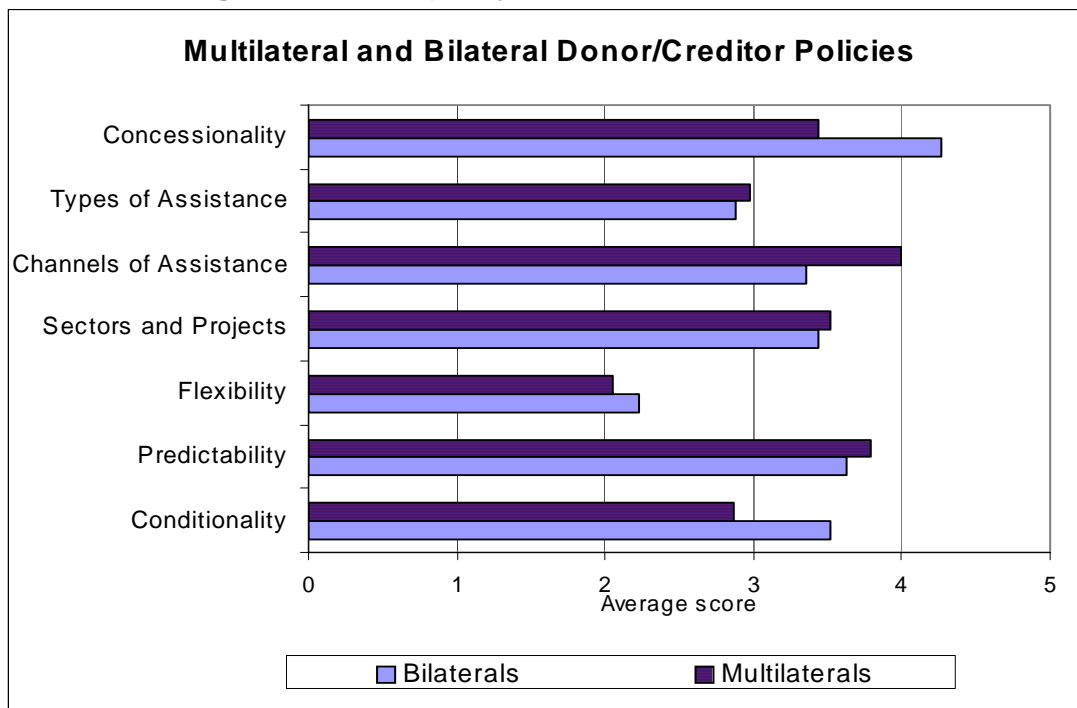
The survey of donor practices carried out by Oxfam in 2004 focused on five main variables, namely (a) simplifying reporting requirements, (b) delivering aid on time, (c) committing for the long-term, (d) fitting in with the government budget cycle, and (e) imposing minimal conditions. Among the multilateral agencies, the EC scored well on reporting requirements, but quite poorly on timely delivery of aid. The World Bank, on the contrary, was judged too heavy on reporting and conditionality requirements, but fared very well on long-term commitments and delivering on time and through the budget.

Debt Relief International (DRI) embarked on a much more comprehensive exercise, based on its capacity building activities in 12 HIPC countries in Sub-Saharan Africa. DRI has been working with developing country governments receiving debt relief to develop a methodology for assessing the quality and performance of assistance provided by different donors, focusing on the characteristics of their policies and procedures. The key policy factors include concessionality, types of assistance, flexibility, predictability and conditionality. For procedures, the main areas covered include disbursement methods, schedules and procedures, procurement rules and coordination. The results of their work have been used as background to international high-level documents such as the *Commission for Africa Report (2005)* and the *Human Development Report 2005*.<sup>30</sup>

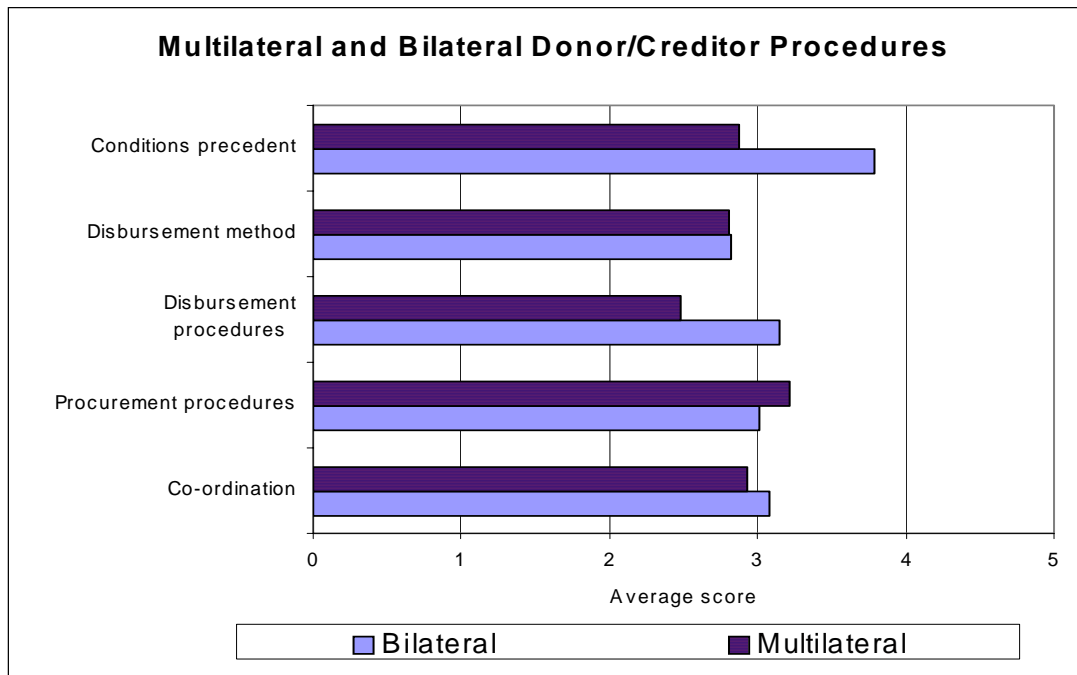
While the DRI methodology is meant to assist recipient governments in managing the external assistance that they receive in a more strategic way, DRI argues that there is still a significant lack of leadership by recipient governments in requesting changes in donor behaviour. How these assessments will be used and what their impact on the aid relationship will be remains unclear. DRI argues that recipient governments need to be empowered to play a more proactive role in managing their relationships with donors, and overcome their fear of negative consequences for their aid relationship if and when they express a negative opinion of donors' performance. This requires a global forum in a neutral institution (such as the UNDP) where developing country governments "can collectively express to donors their concerns and visions for improving aid quality".<sup>31</sup> But it also calls for more information to be made available both at the country and at a global level, so that independent actors can analyse it and provide further inputs to improve aid effectiveness.

The preliminary results are shown in Tables 5 and 6 below.

**Table 5: Ranking of donors on policy criteria**



**Table 6: Ranking of donors on procedures criteria**



These efforts represent important steps forward in promoting mutual accountability. However, their narrow focus on technical matters mostly related to financial management and general policy concerns leaves a lot of room for further discussion on the wider implications of comparing donor performance and comparative advantages at the country level.

More recently, in its 2005 report *Real Aid: An Agenda for Making Aid Work*, ActionAid called for a new International Aid Agreement based on the principle of mutual accountability. The proposal consists of four key elements. Firstly, recipient countries should develop clear policies on the criteria to accepting aid, and should use those criteria to give priority to some donors over others. Secondly, mutual commitments should replace one-sided conditionality, and these should be monitored transparently at the country level. Thirdly, national and international forums where donors and recipients can review progress on an equal footing need to be established. A crucial institution that is needed to give appropriate international level representation for aid recipients is a UN Commissioner on Aid. Annual international meetings on donor progress should also replace current donor-dominated arrangements for co-ordinating aid. Finally, new mechanisms to increase the volume and predictability of aid need to be put in place. While ActionAid is not the first to call for any of these proposed changes to make the aid system more mutually accountable (see, for e.g., DFID 2003, DFID 2005, Johnson and Martin 2005, Rogerson February 2005), its new International Aid Agreement does bring together otherwise disparate ideas and proposals into a single document, which is what makes it so comprehensive. Eliciting further feedback on this proposal, especially from Southern stakeholders, remains an important task.

## **X. General questions for discussion**

The workshop will include individual sessions on each major multilateral aid agency, and further information on their relative strengths and weaknesses at country level.

For now, participants may want to reflect on a few broader questions, keeping in mind, as a loose organising framework, the range of scenarios and players discussed above.

- 1) *What attributes of aid are of greatest value from your perspective?*
- 2) *What costs and risks are inherent in the aid relationship?*
- 3) *Is there a role for political conditionality in the aid relationship, and if so, how should political conditions be defined and established?*
- 4) *What are the pros and cons of greater multilateralism?*
- 5) *Which donor agencies best fit your country's ambitions, and why?*
- 6) *If you could change anything to improve that fit, what would it be?*
- 7) *Does the Paris Declaration offer the final answer on the ways recipient countries and donors need to work together to make aid as effective as it can be?*
- 8) *What steps is your respective government taking to implement the Paris agenda, and how are other stakeholders outside the government being incorporated into the discussion?*
- 9) *What steps should donors and recipient countries take to address the issue of increasing aid dependence in Africa?*
- 10) *How can mutual accountability initiatives such as the APF and the APRM be strengthened?*

And finally,

- 11) *How much stake and voice do you feel you have in major future decisions on the shape and governance of international aid? How could you become more engaged?*

## Endnotes

<sup>1</sup> See A. Rocha Menocal and A. Rogerson, "Which Way the Future of Aid? Southern Civil Society Perspectives on Current Debates on Reform to the International Aid System", *ODI Working Paper 259*, January 2006.

<sup>2</sup> Partial exceptions include the Nordic-Plus group of European donors, who with others have sponsored joint evaluations of the performance of multilaterals (e.g. MOPAN, ref.). And interest in "aid architecture" is clearly rising in Europe, whose majority share of aid is also likely to rise in the near future.

<sup>3</sup> See, among others, R. Manning, "Will 'Emerging Donors' Change the Face of International Cooperation?", presentation delivered at the ODI/APGOOD series on "What's Next in International Development?", Portcullis House, London, 9 March 2006; and A. Harmer and L. Cotterrell, *Diversity in donorship: The changing landscape of official humanitarian aid*, HPG Report 20, September 2005.

<sup>4</sup> A. Rogerson and S. Maxwell, "Aid: What's Next?" *ODI Opinion 27* (September 2004).

<sup>5</sup> This discussion follows Rogerson, Hewitt and Waldenberg, "The International Aid System, 2005-2010, Forces for and against Change", *ODI Working Paper 235* (March 2004). See in particular Chapter 7, which develops the scenarios, and Appendix 1, on the changing role of the major multilateral institutions.

<sup>6</sup> This graph was created by Tim Harford, an economist at the World Bank-IFC Private Sector Vice Presidency, with inputs from Andrew Rogerson. It was first used in the World Bank-IFC "Private Sector Development" homepage in May 2005 to encourage people to vote on the future of aid.

<sup>7</sup> OECD DAC, *2005 Development Co-operation Report*, Paris: DAC, OECD, 2005. Reported non-DAC net ODA amounted to a total of US\$3.7 billion in 2004, of which US\$1 billion was from other OECD members and US\$2 billion came from Arab countries. However, as of yet there are no data available for most emerging donors in Asia, notably China and India.

<sup>8</sup> As defined by ActionAid, "phantom aid" includes technical cooperation, debt relief, excessive transaction costs in divesting aid, aid that is not poverty focused (while allowing for some aid going to middle-income countries), tied aid, aid to host refugees, and excessive administrative costs. ActionAid has estimated that as much as two-thirds of all aid is phantom, while only one-third should be counted as "real". See [www.actionaid.org.uk/100113/real\\_aid.html](http://www.actionaid.org.uk/100113/real_aid.html) for more information.

<sup>9</sup> See A. Rocha Menocal and A. Rogerson, "Which Way the Future of Aid?", op. cit.

<sup>10</sup> OECD DAC statistics. See [www.oecd.org/dataoecd/50/17/5037721.htm](http://www.oecd.org/dataoecd/50/17/5037721.htm).

<sup>11</sup> UNDP (2006) *International development at the crossroads: Aid, trade and security in an unequal world*, Human Development Report 2005, New York: UNDP.

<sup>12</sup> UNDP, *International development at the crossroads*, op. cit.

<sup>13</sup> OECD DAC statistics. See [www.oecd.org/dataoecd/50/17/5037721.htm](http://www.oecd.org/dataoecd/50/17/5037721.htm)

<sup>14</sup> See for example, B. Martens, "Why do aid agencies exist?", *Development Policy Review*, 23:6 (2005).

<sup>15</sup> OECD DAC, *2005 Development Co-operation Report*, op. cit. This trend is partly attributed to the growing share of social sectors in ODA, where technical cooperation inputs are more common.

<sup>16</sup> DAC's terminology classifies AsDB, AfDB, and IDB as Regional Development Banks as opposed to Multilateral Development Banks. We use the MDB term to encompass the entire set of institutions, including IDA and non-concessional loan windows such as IBRD.

<sup>17</sup> See "Belgian discussion paper - towards a Redesign of the UN Development Architecture", paper prepared for the UTSTEIN meeting, Glasgow, 2-3 March 2006.

<sup>18</sup> From web sites and annual reports of agencies. Critical analysis of each category will be presented in the main workshop sessions.

<sup>19</sup> A. Rogerson, "Giving, forgiving, and taking back: why continue to make soft loans to very poor countries?", *ODI Opinion 29*, January 2005.

<sup>20</sup> The Human Rights Council was approved by the General Assembly on 15 March 2006 with a vote of 170 to 4 with 3 abstentions.

<sup>21</sup> European Commission, *Highlights – Annual Report 2005: The European Community's development policy and the implementation of external assistance in 2004*, Brussels: European Commission, 2005.

<sup>22</sup> See the Global Fund Brochure 2005.

<sup>23</sup> This discussion of the Paris Declaration is taken from P. de Renzio, A. Rogerson, and A. Rocha Menocal, "Promoting Mutual Accountability in Aid Relationships: International Level Issues and Options", Background Paper, October 2005.

<sup>24</sup> For more information on the Paris Declaration and the different targets and indicators, see [www.oecd.org/document/18/0,2340,en\\_2649\\_3236398\\_35401554\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/18/0,2340,en_2649_3236398_35401554_1_1_1_1,00.html)

<sup>25</sup> For further information on mutual accountability, see P. de Renzio and S. Mulley (2006) *Promoting Mutual Accountability in Aid Relationships*, Briefing Paper, London: ODI

<sup>26</sup> the OAU/AU endorsed NEPAD as a framework for Africa's progress to prosperity in Lusaka in 2001, as a practical initiative of the Africa renaissance. One of NEPAD's main principles and messages is 'self-reliant development to reduce dependency on aid'.

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<sup>27</sup> While the APF has been hailed by donors and African governments alike as an important effort to redefine the relationship between African countries and development partners on a more equal footing, other observers have been more critical. See, for example, Fletcher Tembo (2006) "The Africa Partnership Forum: an effective framework for mutual accountability for Africa's prosperity?", London: World Vision. DRAFT.

<sup>28</sup> As of May 2006, the list of participating countries included Algeria, Angola, Benin, Burkina Faso, Cameroon, Republic of Congo, Egypt, Ethiopia, Gabon, Ghana, Kenya, Lesotho, Malawi, Mali, Mauritius, Mozambique, Nigeria, Rwanda, Senegal, Sierra Leone, South Africa, Tanzania, Uganda, and Zambia.

<sup>29</sup> For more information, see A. Rocha Menocal and S. Mulley (2006), "Learning from experience? A review of recipient-government efforts to manage donor relations and improve the quality of aid", *Working Paper no. 268*, London: ODI.

<sup>30</sup> Johnson and Martin, *Empowering Developing Countries to Lead the Aid Partnership*, Background paper for the UNDP Human Development Report, London: DRI, 2005.

<sup>31</sup> Johnson and Martin, *Empowering Developing Countries*, op. cit.