

Setting the context: from the Washington Consensus to a new leading paradigm of effective aid?

Commonwealth Secretariat/La
Francophonie workshop on
'The Future of Aid: User Perspectives on
Reform of the International Aid System'

Hilton Hotel, Yaounde, 1-2 June 2006

What is aid?

- The distinction between official aid and other forms of official resource transfers is blurred.
- Nevertheless, it may be useful for the discussion to restrict ourselves to official transfers that meet the DAC's criteria of Overseas Development Assistance (ODA).

Aid trends and fads

- *1960s*: with donor support, newly independent governments hurry to displace the private sector
- *1970s*: donors in a hurry to displace government
- *1980s*: ‘Washington Consensus’ and Structural Adjustment Programmes (SAPs) → governments, responding to donor/ IFI stipulations, return ownership to private sector
- *1990s*: donors begin to return ownership to government based on the recognition that SAPs failed to produce desired developmental outcomes.

Principles embedded in the new aid relationship

- ‘Washington Consensus’ slowly replaced by a new paradigm of effective aid that is founded on a discourse of *country ownership*, *partnership*, and ‘*mutual accountability*’
- Not all donors may subscribe equally to this new consensus, but no donors reject it explicitly.

The importance of 2005: 'Scaling up' aid

- 2005 was a landmark year in terms of efforts to 'scale up' aid.
- The emphasis on 'scaling up' development efforts has focused on issues of both *quantity* and *quality* of aid.
- Perceived need to scale up aid is based on the premise that adequate, predictable and more effective aid flows are critical to reaching the MDGs.

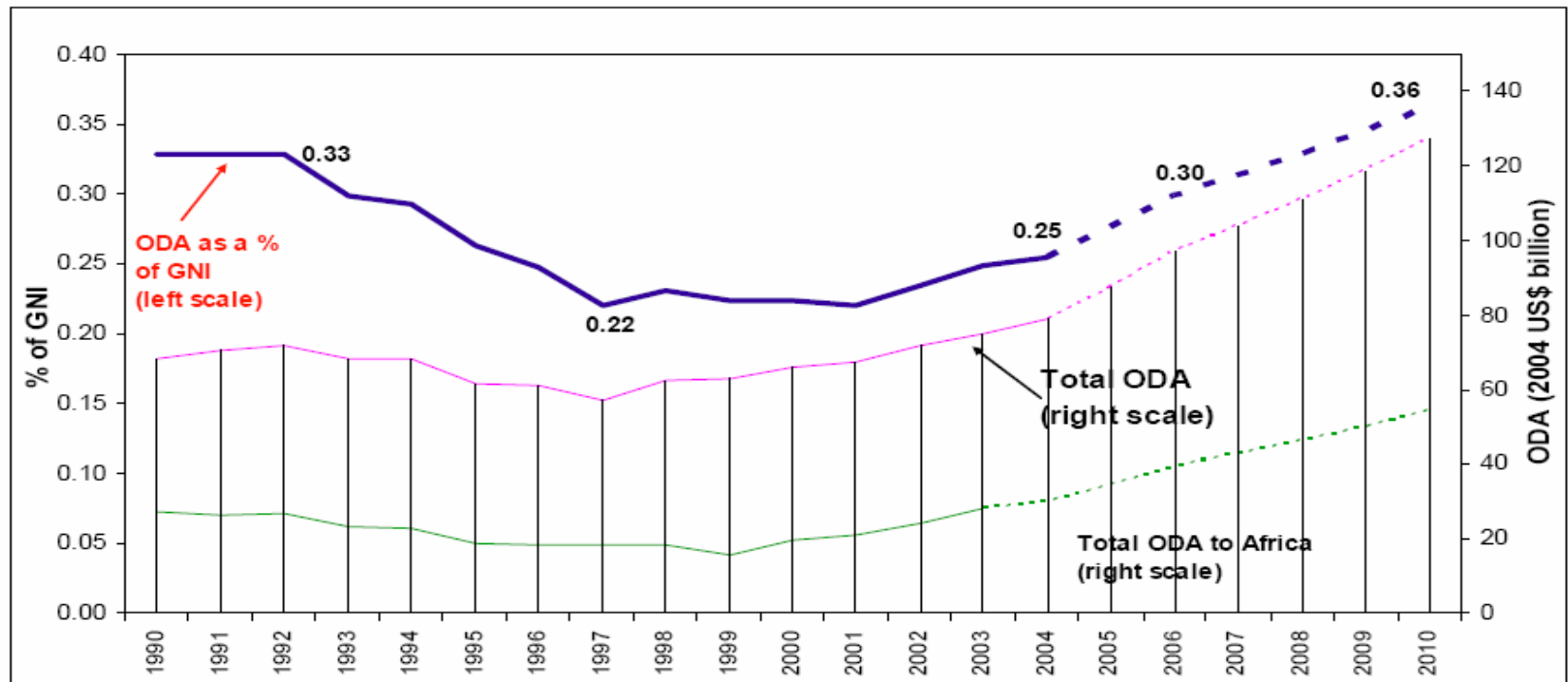
Aid quantity

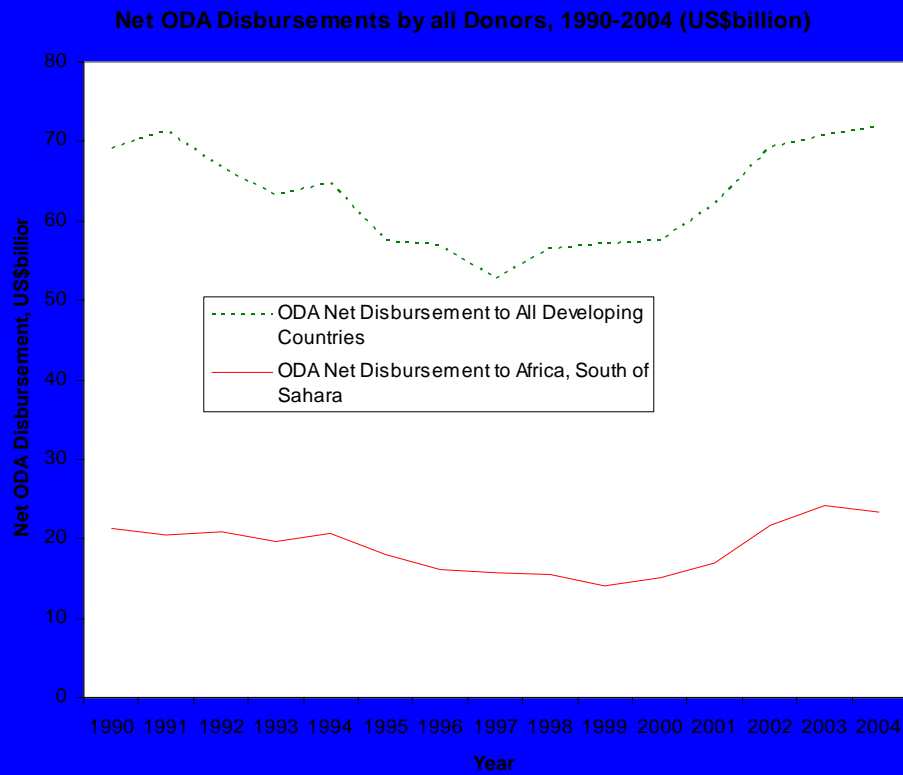
- In 2005 numerous declarations and reports called for substantial increases in aid flows: Commission for Africa; G-8 Summit; UN Millennium Project Report; etc.
- If donors deliver on the public statements they have made, the OECD/DAC estimates that ODA from the main OECD donors will increase from a little under US\$80 billion in 2004 toward US\$130 billion in 2010.
- This US\$50 billion increase represents the largest expansion in absolute levels of ODA as measured by the OECD DAC since the committee was formed in 1960.

Aid quantity

The 'big win': more money

DAC Members' net ODA 1990 - 2004 and
DAC Secretariat simulations of net ODA to 2006 and 2010





ODA to Africa (South of Sahara), percent of ODA to All Developing Countries and Grant, as percent of ODA to the Region (1990 - 2004)

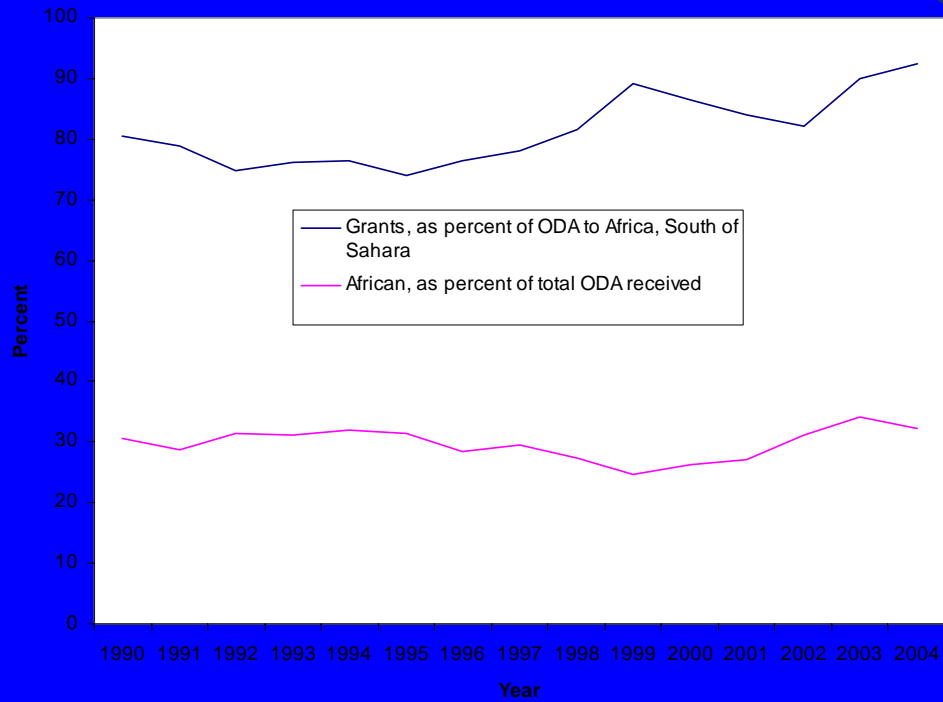


Table 1: Net ODA Disbursements to Africa and All Developing Countries, 1990-2004

	<u>1990-94</u>	<u>1995-99</u>	<u>2000-04</u>
All Developing Countries (US\$billion)	66.95	56.10	66.25
Africa, South of Sahara (US\$billion)	20.57	15.90	20.19
of which: Grants (US\$billion)	15.93	12.63	17.64
Africa (South of Sahara), % of total	30.73	28.35	30.48
Africa: Grant, % of ODA	77.42	79.41	87.34

Figures are in 2003 real value terms.

Source: DAC's IDS (online)

Aid quantity: Africa, South of Sahara

- Data show aid to the Sub-Saharan Africa moving broadly in sympathy with the overall aid volume, with the region's ODA receipts accounting for about 30% of the total.
- An increasing share of total aid volume has started to emerge in the recent years.
- Concerning the terms of the ODA, the share of grants in total ODA has been on the increase, particularly since 2002. Thanks to HIPC debt relief, among other factors.

Multilateral Vs *Bilateral Aid Delivery*

- The share of multilateral in the total ODA first increased from first half of 1990s to the second half, after which it has started to fall again. This is particularly more glaring for the African Region.

Table 2: Trends in Multilateral ODA to Developing and African Countries

	<u>1990-94</u>	<u>1995-99</u>	<u>2000-04</u>
Total ODA to all developing countries (US\$ billion)	67.0	56.1	66.2
Multilateral ODA to all developing countries (US\$ billion)	18.4	16.9	18.6
Total ODA to Africa, South of Sahara (US\$ billion)	20.6	15.9	20.2
Multilateral ODA to Africa, South of Sahara (US\$ billion)	7.8	6.2	6.9
Multilateral, percent of total ODA for all developing countries	27.5	30.1	28.1
Multilateral, percent of total ODA for Africa, South of Sahara	37.9	39.2	34.4

Source: DAC's IDS (online). Figures are annual averages.

Arab-related vs DAC Aid Sources for Africa

- There is an apparent dichotomy between DAC and Arab-related aid sources for Africa. Much is already known about DAC and need not be belaboured here.
- While DAC coordinates aids from Western democracies, AFESD (Arab Fund for Economic & Social Development, based in Kuwait) does the same for Arab related sources.

- Main Arab-related multilateral aid agencies include Arab Bank for Economic Development in Africa (based in Khatoum); Islamic Development Bank; AFESD; and the OPEC Fund.
- Bilateral or national aid agencies exist in Kuwait, Saudi Arabia and UAE while other countries like Libya seem not to have had formalised autonomous aid agencies, despite the fact that they provide relatively reckonable aid volumes.

Table 3: Western versus Arab Sources of Aid to Africa, South of Sahara (Annual Averages)

	<u>1990-94</u>	<u>1995-99</u>	<u>2000-04</u>
Total from Arab Sources (US\$b)	0.176	0.064	0.235
of which: ODA by Arab Multilateral Agencies (US\$b)	0.014	0.001	0.101
ODA by Arab Countries (US\$b)	0.162	0.063	0.134
Total from Western Sources (US\$b)	20.364	15.811	19.911
of which: ODA from Western Multilateral Agencies (US\$b)	7.789	6.231	6.840
ODA from Western Countries (US\$b)	12.575	9.580	13.070
Total from Arab sources, percent of Total from Western sources	0.862	0.405	1.181

Note: A good part of Arab sources could not have been recorded. Figures are in 2003 real value terms.

- Recorded ODA from Arab sources looks modest, most likely because:
 - ❖ Much of the ODA, particularly from bilateral sources, are unrecorded in the data source used.
 - ❖ A greater preponderance of official resource transfers from Arab sources do not qualify as ODA because they are loans that are not concessional enough to meet ODA criteria.

- Although the amounts are still relatively modest, the trend is positive.
- Much more amounts are expected after 2004 and in future due to the rising petroleum prices and, hence, export earnings of most Arab countries.

Aid quality: current problems

- In a 2002 OECD-DAC ‘Needs Assessment Survey’, the following (listed according to priority) donor practices were identified as the most burdensome from a recipient-government perspective:
 1. Donor-driven priorities and systems, including i) donor pressures on partners’ development strategies and priorities and ii) aid management systems supporting donor requirements, not national systems
 2. Uncoordinated donor practices, particularly understanding and fulfilling the multiple requirements of different donors
 3. Difficulties in complying with donor procedures (especially procurement and TA) and frequent changes to donor policies, systems and staff

Aid quality: current problems

- All these problems are exacerbated by the fact that there is a proliferation of aid agencies making up the international aid system.
- There are currently more than 90 agencies, and the system continues to expand.
- The latest newcomers include the Millennium Challenge Corporation (MCC), launched by the USA, and vertical funds such as the Global Fund to fight AIDS, Tuberculosis and Malaria (GFATM).

Aid quality: Responses

- A growing consensus has emerged, especially among donors and a few recipient countries, on what needs to be done to make ODA work better.
- The concepts of *ownership, alignment, harmonisation, managing for results* and *mutual accountability* have thus come to the centre of the aid agenda.

Defining Ownership, Alignment, Harmonisation, Managing for Results & Mutual Accountability

- Ownership implies that partner countries exercise effective leadership over their development policies, and strategies and co-ordinate development actions.
- Alignment involves donors aligning with partners' strategies and using strengthened partner country (public financial management, procurement, etc) systems. Donors are to help strengthen such systems to make them usable.

- Harmonisation refers to coordination among donors, e.g. by implementing common arrangements and procedures and by having division of labour among themselves.
- Managing for results refers to the partner countries establishing results-oriented reporting & assessment frameworks for monitoring progress in implementation of development strategies.

- *Mutual accountability* refers to strengthening by partner countries of parliamentary role in national strategies & budgets and reinforcing participatory approaches by involving a broad range of development partners in formulating and subsequently assessing performance of national strategies. It also means provision by donors of timely, transparent and comprehensive information on aid flows to enable partner countries present budget reports to their legislatures and citizens.

Paris Declaration on Aid Effectiveness

- Formulated/declared the aforementioned 5 pillars of Aid Effectiveness.
- Signed at the Paris High-Level Forum on Aid Effectiveness (2005) by:
 - 35 donor countries and agencies
 - 26 multilateral donor agencies
 - 56 aid recipient countries
 - 14 civil society organisations
- Significant because for the first time actionable commitments to deliver more effective aid are established based on 12 Indicators

But the Paris Declaration is not a cure-for-all on Aid Delivery Challenges

- It fails to adequately address terms of aid delivery, e.g. whether loans or grants; if loans, safeguards on the parts of lenders and borrowers against debt burdens, etc.
- It does not address aid conditionality – whether front loaded to cajole recipients to have good performance, as rewards for good performance already achieved, etc.
- Etc.
- This leads to the next issue of missing Southern Voices in the deliberations.

Role of Southern Voices in this debate?

- Whether these initiatives bear fruit remains an open question, but those are the trends that the main actors shaping the international aid system are moving toward, at least at the rhetorical level.
- Importantly, most of the impetus and intellectual leadership for reforming the international aid system along the lines described above has come from donors themselves.
- Northern CSOs have begun to engage with this agenda.
- So far, however, the views and perspectives of Southern stakeholders in shaping such trends have been muted, and their contribution to the debate on how to reform the aid system has been rather limited.
- This is true for both Southern governments and Southern CSOs.

Commonwealth/Francophonie workshops

- This is the last of two workshops being organised by the Commonwealth and the Francophonie with senior government officials and civil society representatives in Asia and Africa.
- The aim is to work toward the preparation of a paper on aid architecture and its reform to present at the Commonwealth Senior Finance Officials Meeting in Colombo in September 2006.

- So we very much hope that you will take advantage of this workshop to do some thinking about where the future of aid lies and share your ideas so that they can be transmitted to the Commonwealth Ministers and the voices of African aid stakeholders can be appropriately heard.

Thank you!

