



Reforming aid and development cooperation: Accra, Doha and beyond

By Stephen Brown and Bill Morton

Introduction

On June 17 and 18, 2008, The North-South Institute¹ held a conference in Ottawa entitled *Does aid work? Can it work better? Crucial questions on the road to Accra and Doha.*² Participants from around the globe analyzed how to improve the impact and effectiveness of foreign aid, within the broader context of development cooperation and financing. These issues are particularly timely in the lead up to two international meetings that are expected to have a major policy impact: the Accra High-Level Forum on the Paris Declaration on Aid Effectiveness (to be held in Ghana in September 2008) and the Doha Review Conference on Financing for Development (Qatar, November 2008).

This policy note draws on key findings from the conference to analyze some of the challenges associated with improving aid effectiveness and impact. It makes a number of policy recommendations, directed particularly at donors.

The emergence of “new” development actors

Over the last few years, there have been important changes at the global level that are affecting international aid policy and the management and delivery of aid in developing countries. One of the most important changes

has been the emergence of countries - such as China and to a lesser extent India, Brazil, South Africa, Venezuela and Malaysia - that are playing a stronger role in development cooperation, including in providing aid.³

Though these actors are often referred to as “new donors” or “new bilaterals”, these descriptions can be misleading: some have been involved in development cooperation for decades. They have gained recent attention because of their growing economies and their stronger influence as regional and global players. Some of them - China in particular - are increasingly engaged in Africa. Here, they are seeking new investment opportunities, and are therefore more likely to see themselves as economic partners than as aid “donors”. Asian countries are also driving the global resource boom from which some African countries are benefiting.

At the same time, these actors now have a more significant role in providing aid. They are generally doing so outside of existing structures and frameworks, such as the OECD Development Assistance Committee. They represent an important challenge to the status quo and could help redefine the terms and operations of the aid system. They open up new opportunities for South-South cooperation and for bypassing donors’ traditional terms and

conditions, many of which have been unacceptable to aid-recipient countries.

Careful analysis of these countries' development cooperation agendas is nevertheless warranted. Like traditional donors, they are political actors and have a range of motives for providing aid. Although they may ostensibly do so on more favourable terms and conditions than traditional donors, they too are driven in part by geopolitical concerns and economic self-interest, such as their need for resources. Civil society groups in several African countries are already questioning some aspects of China's aid program, including its underlying motives, and its emphasis on the use of Chinese goods and services.

Recommendations

- 1. Traditional donors need to adapt more forcefully to the "new reality" of the changing context for aid policy and provision. This includes accepting that new actors will take a more prominent role in development cooperation.*
- 2. Donors should explore ways to engage with these actors, but should also recognize that the latter may consider that existing forums for policy- and decision-making do not represent their interests. For that reason, among others, alternative mechanisms may be required.*
- 3. More research and analysis is required on the positive and negative ways that the policies and actions of the so-called "new" development actors may affect developing countries.*

Reforming the aid architecture

The term "aid architecture" refers to the institutions and systems that govern the delivery and management of aid. Over the last decade or so, this architecture has become increasingly complex and fragmented. Aid is now delivered through an ever-growing number of multilateral channels, often in the form of specially targeted initiatives such as the Global Fund for AIDS, Tuberculosis and Malaria, and the Global Alliance for Vaccines and Immunization. Private philanthropic organizations, most notably the Bill and Melinda Gates Foundation, are also gaining

importance. These actors address key development problems and are popular with governments and private donors because they target issues (such as HIV/AIDS) that are easily recognizable and that can demonstrate results relatively quickly. However, such programs sometimes compete with or run counter to traditional forms of aid. Many of them provide assistance outside of existing aid allocation and coordination mechanisms, undermining the effectiveness of collective efforts, and causing management problems for aid-recipient countries.

The aid architecture is struggling to cope with the emergence of new actors, its own increasing complexity and perennial challenges that include the contradiction between the ideal of strong country ownership and the reality of continued conditionalities attached to aid. Many stakeholders, in particular those in the South, argue that radical redesign of the architecture is needed. Part of the problem, they point out, is that aid-recipient countries continue to have very little influence. Decision-making bodies and policy forums, such as the G-8 or the OECD, are controlled by industrialized countries, and developing countries also have a subordinate role in these bodies' subcommittees. The Development Assistance Committee (DAC) of the OECD, the main international decision-making body for aid matters, appears increasingly unsuited for the task of managing a rapidly evolving aid system.

With this as background, the newly created United Nations Development Cooperation Forum (DCF) represents a potential "stepping stone" between the DAC and eventual profound reform of the global aid and development finance system. The DCF held its first full meeting on June 30 and July 1, 2008, and discussed a number of important issues, including the current food security crisis, aid effectiveness and the Accra process, the role of civil society in development cooperation, South-South cooperation, and the upcoming Financing for Development Review Conference in Doha.

The DCF has a number of important limitations: it is extremely young; its ongoing focus, operations and relevance are still to be determined; and it is only scheduled to meet every two years. It nevertheless represents an alternative venue for discussing aid issues where donor and recipient countries, multilateral

institutions, civil society and the private sector can all participate, and where North-South power imbalances may have less influence in determining the development policy agenda.

Equally importantly, the DCF considers aid through a development cooperation lens and within the framework of overall development effectiveness. This is reflected in its focus on policy coherence and its call for mutually supportive policies on trade, debt, investment, technology, climate change, food security and systemic issues.

Recommendations

4. In consultation with developing countries, donors and other development actors should take greater responsibility for addressing the increasing complexity and fragmentation of the aid architecture. Donors should be prepared to take tough decisions on aid allocation when these are endorsed by aid-recipients. This may include deciding not to work in certain countries where a strong donor presence already exists.

5. Donors need to recognize that decision-making bodies that are dominated by industrialized countries - such as the G-8 and OECD/DAC - cannot represent developing country interests, and are no longer appropriate mechanisms for policy debates and decision-making.

6. All aid actors should work together to achieve a more representative, inclusive and equitable aid architecture. This should include ensuring developing countries gain significantly more voice and influence within the system. In the medium term, development actors should explore the UN Development Cooperation Forum as an alternative venue for discussing aid policy and management issues within an overall development effectiveness framework.

Determining and improving the impact of aid

At the same time as the aid architecture grapples with new realities and challenges, there is increasing interest in donor and recipient countries in the question of whether aid “works”. Donor governments feel under pressure to demonstrate that their aid programs result in

positive development outcomes. The public in donor countries, who contribute to aid through taxation systems and private donations, want to know that their money is well spent. At the same time, governments and citizens in aid-recipient countries justifiably want assurances that aid will be of concrete benefit to them.

Systematic attempts to clearly evaluate aid impact and effectiveness in meeting development outcomes are, in fact, relatively recent.⁴ Donors have given insufficient priority to evaluating their own performance. Of the evaluations that have taken place, too few have been made public or acted on. They have also focused on official development aid, neglecting the substantial flows that are increasingly being provided for emergencies, through civil society organisations (CSOs) and through private channels.

Assessing whether aid “works” is a difficult task. There are major methodological challenges related to the measurement of aid impact, including the lack of reliable data. In some cases, the desired outcome, such as improved governance or increased capacity, has numerous components and is extremely difficult to measure objectively, let alone quantify. Other problems include the difficulty of demonstrating causality and attributing success or failure to one factor among so many. Counterfactuals are impossible: we cannot tell what would have happened if no aid had been provided but everything else had remained the same.

While it is relatively easy to assess the impact of stand-alone aid projects (such as projects to provide clean water or vaccinate children), it is much harder to assess impact in relation to the “big questions” that donors and recipient countries are increasingly interested in.⁵ Does aid work in contributing to broad development outcomes such as poverty reduction and the achievement of the Millennium Development Goals? It is almost impossible to answer this question because aid is only one (and often not the most important) factor that contributes to overall development outcomes. In addition, donors are now combining their aid with that of other donors, and delivering it through modalities such as sector-wide approaches and budgetary support. As a result, it is difficult to identify the specific impact that an individual donor’s aid might make to an outcome such as poverty reduction.

Effective, regular monitoring and evaluation are crucial to improving aid effectiveness, but too great a focus on quantifiable results can be counterproductive. Overemphasizing quick “demonstrables” can undermine long-term sustainable development. In some cases, such as in so-called “failed and fragile states” or under conditions of instability, it is extremely difficult to predict whether or not aid will work. If aid is focused too heavily in countries and sectors where it is considered to work most effectively, resources will be disproportionately allocated. This would generally favour high-performing middle-income countries, which have greater access to other sources of financing anyway. It also risks “orphaning” many poorer countries, where needs are the greatest.

Recommendations

7. Donors need to develop new ways of addressing domestic pressure for accountability and obtaining results. This requires educating citizens and taxpayers about aid effectiveness and impact, as well as explaining why long-term development programs often do not achieve short-term demonstrable results, especially in some sectors such as governance.⁶

8. Donors also need to move away from trying to demonstrate the effectiveness of their own aid. Instead, they should support the assessment of collective efforts to achieve overall development outcomes, including the combined contributions of recipient governments and other national actors. Where necessary, this should include helping to build aid recipients’ capacity to evaluate their development efforts.⁷

9. Donors should continue to use evidence on aid impact and effectiveness to guide how they allocate their aid. However, allocation should not be restricted to a narrowly conceived view of where it will be most effective. Rather, it should be driven by the objective of reducing poverty in poor countries. This also involves accepting that assistance in unstable environments or in so-called “failed and fragile states” may include elements of risk and still be strongly justified.

Increasing aid flows

Many analysts argue that current levels of aid remain well below those required to have a major impact on development outcomes. In the early 2000s, donors repeatedly committed to important increases in aid flows, including at the 2000 Millennium Summit, the 2002 Monterrey Conference on Financing for Development, and the 2005 Gleneagles G-8 Summit. After initial increases and a much-publicized pledge by G-8 members to double aid to Africa, it is now clear that actual disbursements of aid have not matched commitments.⁸ In fact, levels of “programmable” aid - aid that is available for ongoing development activities - have remained largely unchanged since 2002. Instead, increased aid figures are dominated by one-off debt relief measures (which are counted as official aid) and humanitarian assistance for emergencies. In addition, a substantial proportion of increases in aid have been provided to only two countries: Iraq and Afghanistan.

Renewed, exceptional efforts will be required to meet targets set in the past decade, let alone the 1970 commitment for donors to provide Official Development Assistance (ODA) equivalent to 0.7% of their GDP. In fact, between 2006 and 2007, total ODA from the 22 members of the DAC fell from 0.31% to 0.28% of their combined gross national income.⁹ Furthermore, the emergence of climate change as a key development consideration will place added pressure on limited aid budgets. Unless important new allocations are made, billions of dollars will need to be directed away from poverty reduction to “climate proofing”. Moreover, continued volatility and unpredictability of aid flows undermine aid’s overall usefulness.¹⁰

A number of innovative mechanisms have been proposed to supplement aid provided by DAC member-country governments. The introduction of a “currency transaction tax” would generate an estimated \$33 billion annually through a very small levy on international currency transactions.¹¹ There is strong support for this measure from CSOs and developing countries, but backing is much weaker from DAC countries, in particular from central banks and finance ministries. The Leading Group on Solidarity Levies to Fund Development has taken an important role in advancing innovative

financing mechanisms, some of which have already been implemented. These include the International Finance Facility for Immunisation (designed to accelerate the availability of funds for health and immunization), the Advanced Market Commitment program for the development of vaccines, and the airline levy which partly funds the UNITAID program. The Leading Group includes the participation of 54 governments, with Southern countries, such as Brazil and Chile, taking a central role. Nonetheless, it is early days in the implementation of innovative financing initiatives, and the generation of additional resources remains modest at best.

Recommendations

10. Donor countries should meet their commitments to increased aid primarily through allocation of budgetary resources to their aid programs. Donors that have not committed to a timeline to reach 0.7% of GNI should do so.

11. Increased budgetary aid should primarily be in the form of new allocations to programmable (development) aid. This should not preclude additional allocations to humanitarian assistance or new debt relief measures. Debt relief, however, should not count towards targets for increased aid.

12. In addition to increased budgetary allocations, development actors should continue to put into place alternative means of raising development finance - and should more carefully analyze the political obstacles to their adoption and implementation. In particular, industrialized countries should take leadership on implementation of a currency transaction tax, initially through establishment of a pilot project.

Improving aid delivery: the Paris Declaration

Irrespective of the volume of aid available for developing countries, major advances are still required in the quality of aid. At present, the main framework for improving aid delivery is the 2005 Paris Declaration on Aid Effectiveness. It addresses the issues of ownership, harmonization, alignment, results and mutual accountability and is endorsed by numerous

bilateral donors, multilateral institutions and recipient governments.

Though the Paris Declaration is but the beginning of a long-term process and it is too soon to assess its impact, certain problems have already emerged. For instance, it has been criticized for not sufficiently recognizing gender considerations and the role of civil society organizations as development actors in their own right. Many donors are reluctant to change how they operate and are implementing its provisions very slowly. The 2008 *Evaluation of the Implementation of the Paris Declaration* found that donors need to decrease the emphasis they place on the visibility of their own efforts and their use of tied aid; be more willing to use other countries' systems instead of their own; delegate more decision-making power from their national capitals to locally based staff and increase the predictability of their aid flows. The evaluation also made a number of recommendations regarding aid-recipient governments, including that they should assume a more active leadership role in aid alignment, coordination and harmonization, as well as share responsibility for development with other levels of government, legislatures, civil society and the private sector.¹²

The Paris Declaration is based on a central vision in which developing countries take ownership of national development policies and strategies and in which donors harmonize their assistance in alignment with these policies and strategies. However, this formulation of the "development partnership" between countries and donors overestimates donors' ability to agree amongst themselves and their willingness to relinquish influence over policy directions and development models. It also glosses over the complexities of national political processes and the often competing interests held by parliamentarians, civil society groups and central and local governments. While it may be possible (in both the North and the South) to achieve a broad national consensus on general development principles (such as respect for human rights or for democratic processes), the actual content and details of a national development policy and strategy are likely to be strongly contested. The Paris Declaration is premised on a simplistic view of ownership, which assumes that government policy can be easily arrived at through a democratic process involving popular participation, from which the

outcome will be widely accepted as legitimate. In reality, policy formulation and the democratic process - no matter where they are occurring - are much more complicated than this.¹³

The Paris Declaration's focus on donor alignment and harmonization also harbours a potential inherent contradiction. It emphasizes that donors should dispense with their different development approaches and policies and instead adopt common processes and positions. However, if donors agree among themselves on the policy a country should follow, the recipient country has little choice but to adopt that policy, regardless of its preferences, since its ability to pick and choose the assistance it considers appropriate is vastly reduced. Harmonization and alignment can thus run the risk of undermining national ownership, and existing power imbalances between donors and aid recipients can even be increased. Moreover, since donors do not know ahead of time what will work (and in fact have often been wrong in the past), it can be a highly risky to put "all their eggs in one basket" by harmonizing around a single approach.

Recommendations

13. Donors should recognize the risks as well as benefits associated with harmonization and alignment, and be more open about their possible contradictions and potential for undermining ownership. More analysis should be undertaken of situations in which these processes have or have not occurred and how this has affected ownership.

14. Development actors should expand their understanding of national ownership. As a starting point, this includes accepting the principle of democratic ownership and the meaningful participation of parliaments, civil society groups and other actors in formulating national development strategies.

15. An expanded understanding of ownership also includes accepting that it is unlikely there will be consensus on the "right" national development strategy and that ownership of national policy and strategy is likely to be contested. Donors thus need to take local politics into account when assessing a government's claims of policy-making legitimacy.

Advancing the Paris Declaration: the Accra Agenda for Action

Many Southern actors believe the Paris Declaration lacks legitimacy, since it was initially conceived and driven by donors, with developing countries only brought into the process later. Analysts also argue that reforms through the Paris Declaration merely represent "tinkering at the edges" and that the Declaration and the DAC are unlikely to usher in the required major overhaul of the development architecture.

Adherents to the Paris Declaration offer a different view: that despite its limitations, it represents an important starting point for efforts to improve aid effectiveness. In preparation for the High-Level Forum in Accra, donors, aid recipient governments and civil society groups have devoted substantial energy and resources to reviewing the Paris Declaration and to analyzing how to deliver better outcomes for developing countries. The meeting is expected to agree on an "Accra Agenda for Action" (AAA), which will set out further agreements and actions on aid effectiveness, including new measures required to meet the Paris Declaration's existing 2010 targets.

The final draft of the AAA provides a strong indication of the agreement that participants at the High-Level Forum will reach.¹⁴ It responds to the changes in the global context that have occurred since the Paris Declaration was signed in 2005, as well as to ongoing concerns regarding donor practices. For instance, it refers to the emergence of an increased number of development actors, including middle-income countries and global funds, recognizing the valuable experience they bring. However, it also proposes to reduce the fragmentation of aid caused by too many actors, including through continued work on "division of labour" between donors at the country level and internationally. It also calls for greater progress on aid untying, and for donors to "change the nature of conditionality" by drawing conditions from partner countries' own development policies.

The final draft of the AAA also appears to take into account some of the recommendations made by important related bodies, such as the Advisory Group on Civil Society and Aid Effectiveness. For instance, it states that developing country governments will work more

closely with parliaments and local authorities, and that all actors will deepen their engagement with CSOs as “independent development actors in their own right.”

Despite these proposed improvements to the Paris Declaration process, the final AAA is likely to be found wanting in critical areas. There appears to be little movement on the key area of ownership, in particular regarding its political dimensions. Several groups have presented strong critiques of the AAA.¹⁵ The International CSO Steering Group, which coordinates CSO input to the Accra process, argues that to be meaningful the AAA must include new targets and time-bound commitments, that the section on conditionality is weak and indicates that donors are not yet ready to end their imposition of policy conditions, and that it does not adequately address the area of mutual accountability.¹⁶ Perhaps the most likely outcome of the Accra meeting is that developing country governments and civil society actors will continue to feel that donor countries and institutions are making insufficient progress on their Paris commitments and, in particular, that they are insufficiently prepared to relinquish control of the development policy agenda.

Recommendations

16. The final AAA should be seen as part of an ongoing process of intensified efforts to improve aid effectiveness. Those aspects of the AAA that require deeper commitments should be clearly identified, particularly those that do not adequately reflect developing countries' agenda for change.

17. Omissions and shortcomings of the AAA, as well as issues on which Accra HLF participants could not reach agreement, should be acknowledged. New measures should be identified to address these shortcomings. This could include further commitments on ownership, conditionality, aid untying and mutual accountability.

18. Multi-stakeholder processes and dialogues (such as the Advisory Group on Civil Society and Aid Effectiveness) are essential to ensure that a diversity of opinions and expertise is represented at unofficial and official forums that discuss aid effectiveness. Such dialogue and processes, however, should be ongoing. Donor

countries and partner governments should continue to provide support (financial, human resources, in-kind) for such processes.

Reforms beyond the Paris Declaration: engaging with Financing for Development

The strong involvement of donors, developing countries and civil society groups in the Accra process has provided unprecedented international focus on aid effectiveness and has increased the chances of outcomes that, in the long term, will benefit the poor. This focus, however, has had an unfortunate consequence: it has distracted attention from other important policy processes that are crucial to developing countries' interests. These include policy debates that go beyond aid and that consider the broad range of development financing issues relevant to poor countries. Many developing countries are concerned about long-term dependence on aid and are seeking to finance their development through other means, such as by mobilizing domestic resources and increasing savings, by maximizing revenues from exports or by accessing international capital markets.

The UN Financing for Development (FfD) process is a key forum for policy discussion on these issues. The first FfD meeting in 2002 discussed a comprehensive agenda, and resulted in the Monterrey Consensus, which proposes action in six thematic areas, namely domestic financial resources, foreign direct investment and private flows, debt relief, international financial and technical cooperation, trade, and systemic issues. The November 2008 meeting in Doha will review implementation of agreements made in each of these areas, as well as issues that have emerged since the Monterrey meeting.

Like the Development Cooperation Forum, FfD allows for the broad engagement of civil society and the private sector. This complements the participation of Southern and Northern governments, and key institutions such as the World Bank, IMF and WTO. Because of this comprehensive participation, FfD is viewed by many as a more legitimate process than the DAC-driven Paris Declaration and Accra process.

Also like the DCF, FfD ensures that aid is considered within the broader context of development effectiveness. It includes a special focus on policy coherence, including the need for donors to pay more attention to the development impact of their non-aid policies. This applies, in particular, to trade and agricultural subsidies, which can easily undermine the benefit of the aid that donors provide. These issues, and FfD's six thematic areas, underline that discussions that focus on aid alone, such as those that will occur in Accra, are unlikely to lead to overall improvements in development effectiveness. FfD needs more emphasis, engagement, and debate.

Recommendations

19. *Participants in the Accra meeting should put aid in perspective and recognize that it is only one among many means of financing development - and not always the most important one.*

20. *Development actors, including Northern and Southern governments, should commit more strongly to the Financing for Development process. They should ensure representation at the highest level at the Doha meeting. They should also more clearly link the Paris Declaration to the broader FfD processes. Results from Accra should be designed to directly feed into the Doha meeting and the FfD process.*

21. *Donors should make renewed commitments, with measurable targets, for greater coherence between their aid and other policies, ensuring that they do not operate at cross-purposes.*

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Notes

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² This Policy Brief draws on presentations and papers from the *Does aid work?* conference, which can be found at www.nsi-ins.ca/english/events/aid.asp. A report that summarizes the main issues raised in presentations and during discussion is available at the same location.

³ This and the following section draw on the presentation by Amar Bhattacharya at the *Does aid work?* conference.

⁴ This section draws on Roger Riddell's presentation at the *Does aid work?* conference, and on *Assessing and Measuring the Impact of Aid: Evidence, Challenges and Ways Forward*, commissioned by the Advisory Board for Irish Aid (ABIA) and undertaken by Oxford Policy Management, available at www.abia.gov.ie/article.asp?article=98

⁵ Riddell's above-cited work provides a detailed discussion of impact assessment of "big questions".

⁶ For a more detailed discussion on how donors should manage domestic political pressure for results and accountability, see the ABIA/Overseas Development Institute research program *Good Governance, Aid Modalities and Poverty Reduction*, available at:

www.odi.org.uk/pppg/politics_and_governance/

⁷ This recommendation draws on the work cited in note 3, above.

⁸ This section also draws on Amar Bhattacharya's presentation at the *Does aid work?* conference

⁹ See www.oecd.org/document/8/0,3343,en_2649_33721_40381960_1_1_1_1,00.html.

¹⁰ For a discussion of aid and other resource flow volatility, see Sunday Khan's presentation at the *Does aid work?* conference.

¹¹ See Schmidt, Rodney, 2007, *The Currency Transaction Tax: Rate and Revenue Estimates*, available at www.nsi-ins.ca/english/pdf/CTT%20revenue.pdf.

¹² See Wood, Bernard et al, *Evaluation of the Implementation of the Paris Declaration*, available at www.oecd.org/document/60/0,2340,en_21571361_34_047972_38242748_1_1,00.html.

¹³ For a detailed discussion of ownership issues, see papers produced through the Global Economic Governance Programme (University of Oxford) research program *Negotiating Aid: African strategies for dealing with donors*, available at: www.globaleconomicgovernance.org.

¹⁴ This brief refers to the Final Draft of the AAA, July 25, 2008, available at <http://www.accrahlf.net>.

¹⁵ As well as the following critique, see also South Centre, 2008, *Comments on the 3rd HLF on Aid Effectiveness' Final Draft of the AAA*, available at www.southcentre.org.

¹⁶ See www.betteraid.org.