

AID TO END ALL AID

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Voices of the South on Globalization is a monthly newsletter intended to inspire a meaningful North-South Dialogue by raising awareness for global interdependences and by offering a forum for voices from the South in the globalization debate. Each edition will present short analyses or commentaries from a Southern perspective on one particular issue of the globalization process.

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'WHERE NO COUNTRIES WILL DEPEND ON AID'

Imagine the dawn of a day when development aid departments and ministries in Europe close down and the German ministry of economic cooperation and development (BMZ) ceases to exist, not because it has merged with the External Affairs Ministry but because there are no countries left that depend on aid!

That is hard to imagine and sounds rather utopian. Nevertheless, the government ministers of developing and 'donor' countries responsible for promoting development and heads of multilateral and bilateral development institutions look like taking the collective ownership of that utopia when they gather in Accra on Sep. 2 for the Third High-Level Forum on Aid Effectiveness.

An eminently important paper they will find in the bunch of conference documents is the Accra Agenda for Action. Moreover, if all goes well, they will adopt this document unanimously on Sep. 4.

The last Para of this 31-point, six-page document says: *"Today, more than ever, we resolve to work together to help countries across the world build the successful future all of us want to see -- a future based on a shared commitment to overcome poverty, a future where no countries will depend on aid."*

This pledge will be part of the package that the UN Secretary-General Ban Ki-moon will transmit to the MDG Summit in New York on Sep. 25 and the Financing for Development Review meeting in Doha Nov. 29-Dec. 2, accompanied by a message stressing the need to translate the "aid-free" world utopia into reality.

There are miles and miles to go before that happens. However, the potential signatories of the Accra Agenda for Action know the roads they need to take to reach the goal. The draft document presents a critical road map in complete awareness of the fact that the agenda for action "will require continued high-level political support, peer pressure and coordinated action at global, regional and country levels".

The Accra Agenda will not substitute the Millennium Development Goals that the international community pledged to achieve by 2015. However, taken seriously, it can provide fresh impulses to achieve the goals.

Developing and industrialised countries' commitment to implementing the Accra road map will also be judged by their resolve to take the following actions to further improve predictability of aid:

- a) Developing countries will strengthen budget-planning processes for managing domestic and external resources and will improve the linkages between expenditures and results over the medium term.
- b) Donors will provide full and timely information on annual commitments and actual disbursements so that developing countries are in a position to accurately record all aid flows in their budget estimates and their accounting systems.
- c) Donors will provide each year, at country level, comprehensive estimates of aid flows they plan to provide over a 3-5 year period.
- d) Developing countries and donors will work together at the international level to review ways of further improving medium-term predictability of aid, including developing tools to measure it. ☑

QUALITY OF EUROPEAN AID HANGS IN THE BALANCE

As rich country leaders gather in Accra, Ghana, to discuss the quality of the aid they provide to developing countries, European NGOs are concerned that without a strong and progressive common position from European governments, this meeting will amount to little more than lip-service to official promises to make aid more effective.

CONCORD, the European Confederation for Development NGOs calls on the European Union, as the world's largest donor of official development assistance, to demonstrate leadership on aid effectiveness and agree ambitious and measurable actions to reform aid and ensure it reaches those that need it most.

In Accra, over 1,000 officials from donor and developing countries will meet from Sep. 2-4 to report back on progress made against meeting the targets set out in the Paris Declaration in 2005 and to endorse a new Accra Agenda for Action on aid. "Politicians made high level political promises to make aid better for poor people, but lack of progress on these commitments means their credibility is now at stake," says CONCORD.

Governments' own surveys have found that three years since making these promises, donors have made little or no progress in improving the quality of their aid. This year's meeting in Accra provides governments with a chance to put things back on track and move towards more effective, accountable and transparent aid. According to CONCORD, too much aid remains driven by donors' priorities and interests, which can undermine democratic accountability in countries receiving aid, and sideline the needs of the poor.

"Donors take decisions which affect the lives of real people in poor countries, yet they are almost completely unaccountable to them. One key first step towards making aid more effective and accountable would be for donors to sign up to international best practice transparency standards in Accra," said Jesse Griffiths of ActionAid's aid policy team.

Despite donor commitments for reform, the majority of aid still undermines developing country systems by setting up parallel donor structures and enforcing damaging policy conditions which are used to promote donor economic and foreign policy interests.

"We know that donors have the power to unblock many of the obstacles to improving aid. If donors do not make concrete commitments to change the way they do business when they meet in Accra, the outcome will be more inaction and more

ineffectiveness," says Justin Kilcullen, President of CONCORD. He is of the view that the European Union (EU) has the responsibility to ensure that concrete actions are agreed in Accra which improve the transparency of both donors and developing country governments, end the practice of attaching policy conditions to aid, and ensure aid is effective in meeting the needs of those for whom it is intended.

Civil society organisations (CSOs) were present in 2005 when donor country members of the Organisation for Economic Cooperation and Development's Development Assistance Committee (OECD-DAC), developing countries and multilateral institutions signed the Paris Declaration (PD) on Aid Effectiveness.

Since then, diverse CSOs have been engaged in tracking this agreement, both internationally and in developing countries. CSOs have been raising a range of issues and bringing in different perspectives, trying to ensure that this new framework for aid effectiveness translates into effective and accountable development processes.

They argue that the only true measures of aid's effectiveness are its contribution to the sustained reduction of poverty and inequalities; and its support of human rights, democracy, environmental sustainability and gender equality.

CSOs are also pushing for a broader interpretation of aid effectiveness in reforming aspects of the aid relationship including donor selectivity, further reducing loans in favour of grants and the nature of technical assistance.

CSOs consider aid effectiveness one of a triad of key issues in development financing - the other two key issues being one hundred percent debt cancellation to end the debt crisis in developing countries, and for rich countries to meet their commitments to give 0.7 percent of GNI as Official Development Assistance (ODA).

Rich countries first committed to increase their ODA to this level in 1970 and this commitment was reaffirmed in the Monterrey Consensus of 2002. But very few donors have fulfilled their promise. ☒

EFFECTIVE AID BY 2010? WHAT IT WILL TAKE

How effective is aid at helping countries meet their own development objectives? A follow-up survey on Monitoring the Paris Declaration on Aid Effectiveness gives some of the answers.

The OECD's Development Assistance Committee (DAC) survey assesses progress in 54 developing countries and points to the challenges in making aid more effective in order to advance development. The findings are clear: progress is being made, but not fast enough. Unless they seriously gear up their efforts, developing countries and their external partners will not meet their international commitments and targets for effective aid by 2010. Action is needed now.

"In order to change practices in international aid, we need to reshape deep-seated behaviours," says the report. "These changes in the process of development and the nature of the aid relationship require time, focused attention and determined political will. It is not easy to change laws, regulations, institutions, practices and mindsets. Old habits die hard."

The results of the 2008 Survey show significant advances in some countries and some areas, confirming that real change is possible when resolute joint efforts are made. But this progress is not uniform across countries and donors; many register no change against the baseline established in 2005.

It is clear that the slow-moving nature of the development process may cause time lags and that many improvements will only become visible as old agreements expire and new programmes are designed. Even so, the message from the survey is clear: "We will have to accelerate change considerably if we are to achieve the targets set for 2010. This means more than just putting more pressure on the gas pedal. It requires shifting gears."

More determined and consistent efforts in turning principles into actions are called for. Overall, the survey results should serve as a wake-up call. They point out quite clearly that "more of the same" is unlikely to be enough to deliver the transformation envisaged by the Paris Declaration.

There is clear evidence that we are slowly making progress in most countries and in most areas covered by the survey.

The first -- and very encouraging -- finding reflects the survey process itself. At country level, the survey has helped push forward the commitments agreed in the Paris Declaration. It has helped

generate a common sense of purpose on actions needed to improve aid effectiveness over time. In doing so, it has stimulated dialogue between partner countries, the community of donors and key actors from civil society.

The value of the survey as a tool for strengthening broad-based accountability at country level is substantiated by the fact that more countries volunteered to take part in the 2008 survey -- in less than two years, 20 new countries decided to monitor the effectiveness of their aid.

Another encouraging finding is that there has been progress -- albeit very uneven -- for almost all of the measures of aid effectiveness since 2005. For three of the indicators there have been notable improvements against the 2010 targets:

36 percent of partner countries (10 out of 28 countries which took part in both surveys) showed improvements in the quality of countries' systems for managing public funds. The 2010 target for this indicator -- 50 percent of all countries improve their score by 2010 -- is well within reach.

Untied Aid

Aid to partner countries is increasingly untied. The proportion of untied aid increased from 75 percent in 2005 to 88 percent in 2006.

At the High Level Meeting of the DAC in Paris, Development ministers from donor countries agreed on May 22 to untie aid to Bolivia, Cameroon, Côte d'Ivoire, Ghana, Guyana, Honduras, Nicaragua, and Republic of Congo. In total, all 39 Highly Indebted Poor Countries will now receive untied aid and will be able to buy goods and services locally at the best price.

Reporting on the outcome of the High Level Meeting, the Chairman of the DAC, Eckhard Deutscher, noted that untying aid is a key element in making development co-operation more effective, allowing developing countries to make their own procurement decisions on the basis of sound procurement policies and practice.

In discussions focused on the need to make aid an effective and sustainable contribution to development, ministers committed to making their future
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SCALING UP: AID FRAGMENTATION, ALLOCATION AND PREDICTABILITY

It is nearly three years since members of the DAC announced renewed commitments to increase ODA to coincide with the Millennium+5 Summit in New York. The DAC Secretariat calculated that, if delivered, these commitments would amount to an additional USD 50 billion of ODA by 2010 (in 2004 dollars).

As part of monitoring the delivery of these commitments, the DAC has conducted its first full annual Survey on Aid Allocation Policies and Indicative Forward Spending Plans in late 2007 and early 2008. The Survey identifies resource gaps and opportunities for scaling up in individual partner countries.

This report is a key stimulus to improving the **medium term predictability of aid**, as called for in the Paris Declaration and by the UN Secretary General's MDG Africa Steering Group.

It is intended to inform discussion at major development events in 2008, especially on predictability and division of labour at the Third High Level Forum on Aid Effectiveness (Accra, September) and on ODA financing at the Follow-up International Conference on Financing for Development (Doha, November/ December).

The report uses a new measure of the amount of aid that can be programmed at the country level: **country programmable aid (CPA)**. In 2005 - the baseline year for the Survey - CPA was USD 60 billion. Some USD 47 billion of this was from bilateral donors, equal to 46 percent of their gross bilateral ODA.

The main exclusions are debt relief, humanitarian aid, NGO funding, and administrative, imputed student and in-donor refugee costs. The 33 donors covered by the Survey provided information on forward spending to 2010 that covered 56 percent of their total CPA. Estimates were made for the balance.

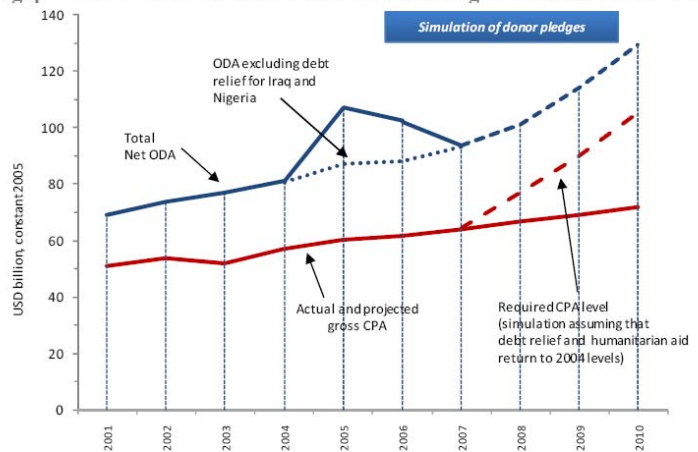
Japan was unable to provide estimates covering all its forward spending, but provided provisional data on CPA in 2007 on which the Secretariat based its projections. The United States does not issue or approve global forecasts on projected ODA. The amounts included in this report are Secretariat estimates

based on public announcements and projecting past aid flows.

The first issue of predictability is delivering on **global commitments**. The Survey results show that so far CPA is programmed to increase by 2010 by nearly USD 12 billion over 2005 (on top of the extra USD 5 billion delivered in 2005 compared to 2004). Recent record replenishments of IDA and the African and Asian Development Banks will add around a further USD 4 billion of ODA to this figure in 2010 for deposits of promissory notes.

Thus USD 21 billion of the USD 50 billion promised by 2010 is already delivered or in the planning figures. But, assuming that debt relief and humanitarian aid return to 2004 levels by 2010, this leaves nearly USD 30 billion in 2004 dollars - about USD 34 billion in 2007 dollars - still to be programmed into donor budgets if the commitments for aid levels in 2010 are to be fully met.

A gap to close: DAC members' total net ODA and gross CPA for 2001 – 2010



Note: Net ODA for 2007-2010 is estimated by the DAC Secretariat. CPA for 2007-2010 is based on Survey returns and estimates by the DAC Secretariat.

There has been slightly better progress on delivering on promised increases in aid to Africa. In 2005 at the EC Council in May and the Gleneagles summit in June, donors made commitments to Africa and sub-Saharan Africa that amounted to an increase of USD 25 billion (in 2004 dollars) in aid to Africa by 2010.

At the half way point, net ODA to Africa is estimated to have increased by some USD 7 billion since 2004. The Survey shows a further USD 4 billion programmed for 2008 to 2010, still leaving some USD 14 billion to be programmed, assuming debt relief and humanitarian aid return to 2004 levels.

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The second issue is improving **aid predictability at the country level**. This will be achieved primarily in discussions between governments and their development partners. This means providing reliable information on future aid levels whether aid is due to be scaled-up, remain flat, or decrease.

As background, the Survey provides a broad indication of trends in future aid levels for each of 153 partner countries. It shows that 102 countries can expect a real increase in their aid by 2010, 33 of them by USD 100 million or more. In contrast, on current programming figures, supplemented by past trends, 51 countries can expect a decrease in aid by 2010. For some, such as China, Egypt, India and Thailand, this is a continuation of a process of graduating from aid. But aid to eight LDCs and four fragile states is expected to fall by over USD 20 billion. These cases deserve particular attention.

The Survey reviews **global aid allocations**, a process which necessarily starts in headquarters. It provides information for the first time on the likely outcome of allocation decisions taken individually by 33 bilateral and multilateral donors.

Combined with analysis of existing aid allocation patterns contained in *Part I* of the report, the information can help to address the existing **fragmentation of aid** and provide essential information to take forward action on improving the **division of labour** between donors.

In 2005-2006, 38 partner countries had 25 or more DAC and multilateral donors. In 24 of these countries, 15 or more donors collectively provided less than 10 percent of that country's total aid. At the other extreme, 38 countries -- mostly small island states -- had fewer than 10 donors in total.

These results, especially when further analysed by the sectors in which each donor is operating, offer insights into where it might be possible to reduce the number of actors that each partner has to deal with. At the same time, they make it clear that that in some countries, usually fragile states, there is a need for more, not fewer, donors in order to improve diversification and scale-up aid without incurring undue transaction costs.

The number of partners per donor varies greatly. Unsurprisingly, the three largest bilateral donors -- US (128 partners), Japan (135) and the EC (144) -- top the list. Canada, France, Germany, The Global Fund, UNICEF, UNDP and UNFPA each work in over 100 partners. At the other end of the scale, Greece, Luxembourg, New Zealand, AsDF, AfDF, and IDB each work in fewer than 50 partners, with Portugal (20) having the fewest.

Fragmentation is reduced when a donor provides above its average share of global CPA to more of its partners. The IDB, with its regional focus, is above its global share in all its 24 partners. But larger donors, such as the EC, Germany and Spain, achieve an above average share in the majority of their partners. And even where a donor is below its global share in a country, it can still be a major player in a sector within that country, for example Austria in the health sector in Vietnam.

The Survey reviewed **donor practices on forward planning of aid expenditures**. It showed that while budgets remain annual, as approved by parliament, most donors operate multi-year programming frameworks, which include information on planned expenditure. For DAC bilateral donors, forward planning is generally limited to their priority partner countries.

With the exception of the United States, all members have a named group of priority partners and several are in the process of further concentrating their aid.

The extent to which information is shared with partner countries varies. Some donors include indications of future funding levels in signed co-operation agreements; others share the information on an informal, non-committal basis; yet others do not share the information or share it only with selected partners or in relation to budget support.

Multilateral donors' forward planning data cover all their aid partners. They make use of resource allocation models, based on country needs and performance.

The report is organised in three parts. *Part I* examines existing patterns of aid fragmentation and concentration, using maps and a powerful matrix that shows the degree to which 33 donors are operating in 153 partner countries. *Part II* looks forward to the delivery of commitments on future aid levels in total and where aid is likely to be scaled up or scaled back. *Part III* summarises donors' country allocation and budgetary procedures and practices and the degree of transparency in sharing forward spending information at the country level, with a compendium showing practice for each donor. ☑

EFFECTIVE AID BY 2010? WHAT IT WILL TAKE

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aid levels more predictable so that developing countries can plan long-term, sustainable growth. They also committed to working with developing countries on policies to ensure food security and on measures to adapt to climate change.

A concerted effort to make aid more effective has been underway over the past few years. Ministers from donor and developing countries will evaluate the results and push joint action further when they meet in Accra.

Donors' technical co-operation is also more coordinated and aligned with the capacity development programmes of developing countries as the proportion of co-ordinated technical co-operation increased from 48 percent in 2005 to 60 percent in 2007, exceeding the 2010 target of 50 percent.

Yet the evidence from the survey is also clear that the pace of progress is too slow. Without further reform and faster action we will not meet the 2010 targets for improving the quality of aid. Meeting the targets will require not only accelerating the pace of progress but also changing significantly how we do business.

The report makes three high-level policy recommendations that will help accelerate progress in the near future and transform the aid relationship into a full partnership.

1. Systematically step up efforts to use and strengthen country systems as a way of reinforcing country ownership: Partner countries and donors must work together much harder to improve countries' systems for managing all development resources -- both domestic and external. Reflecting a shared concern for strengthening all these country systems, the targets create different commitments for both partner countries and for donors.

2. Strengthen accountability over development resources: Strengthened lines of accountability create powerful incentives that improve the way development resources are managed at country level. This implies: relying less on donor accountability and strengthening countries' domestic accountability systems.

This in turn means focusing attention at two different levels: domestic accountability on the use of development resources and mutual accountability between partner countries and donors.

The Paris Declaration calls upon partner countries to account for the use of development resources -- including external resources -- to their own parliaments and citizens. One way to achieve this, identified by the Paris Declaration, is through countries' national budgets.

Strengthening the credibility of the budget as a tool for governing the allocation and use of development resources is important, not only in its own right but also as a way to improve donor alignment with countries' policies.

To this end, the survey assesses the realism of budgets by measuring the proportion of total aid flows recorded on countries' budgets. As in the 2006 Baseline Survey, this report shows that, despite some progress, less than half of all aid is recorded in countries' national budgets. The target for 2010 is 85 percent.

3. Cost-effective aid management: Reducing the transaction costs of providing aid to partner countries is one of the fundamental objectives of the Paris Declaration.

The survey provides clear evidence that the cost of managing aid continues to be high for partner countries and donors. Furthermore, on a business-as-usual basis, these costs can be expected to increase significantly in the near future as the volume of aid is scaled up and new development actors enter the field.

In 2007, only 46 percent of all aid flows were delivered through common arrangements such as sector-wide approaches (SWAPs), the so-called programme-based approaches. The target for 2010 is 66 percent.

More than 14,000 donor missions were fielded to the 54 countries that took part in the survey. In Vietnam alone, this amounted to 752 donor missions in 2007 -- more than three missions per working day! Of these missions, less than one in five was co-ordinated with another donor. A similar picture is apparent in studies and reports commissioned by donors at country level. In view of this, the survey calls on donors to pursue their efforts to increase aid through programme-based approaches and focus on a more effective division of labour. "To assist in this process, donors should work towards increased complementarity and division of labour at the country level," says the survey. ☑