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

Alina Rocha Menocal, ODI
28 April 2006
The ‘new aid agenda’

• Where did it come from?
• What is it?
• Efforts to ‘scale up’ aid
• How is the new aid agenda intended to be achieved?
• Some challenges and tensions embedded in the new agenda
• Where are Southern Voices in this debate?
WHERE DID THE NEW AID AGENDA COME FROM?
Aid trends and fads

1960s:

- Great enthusiasm about the emergence of newly independent states, especially in Africa and Asia.

- Both newly established governments and donors embrace an Import Substitution Industrialisation (ISI) model of growth.

- The ISI model is based on the state as the leading engine in promoting national development.

- Thus, with donor support, newly independent governments rush to displace the private sector and take on many of the activities to promote industrialisation and growth.
Aid trends and fads

1970s:

• By the 1970s, however, many of these states in the developing world have become bloated and are deemed to be highly inefficient and corrupt.

• For the most part, state intervention, especially in Africa, Eastern Europe, and Latin America has not been successful, showing the limitations of ISI.

• The only clear exception to this are the so-called ‘East Asian tigers’, but lessons drawn from their experience and the role the state played in it are not analysed/absorbed until later.

• Donors become disillusioned with this model of development and seek to displace governments.
Aid trends and fads (cont’d)

1980s:
- ‘Washington Consensus’ and Structural Adjustment Programmes (SAPs).
- At its most rigid, the Washington Consensus is characterised by a strong anti-state bias.
- The goal is to shrink the state and get it out of the economy to avoid ‘state capture’ by interest groups and corruption.

→ governments, responding to donor/ IFI stipulations and pressures, undertake a series of reforms to reduce the size of the state, return ownership to the private sector, and adopt economic reforms that are more market-oriented.
Aid trends and fads (cont’d)

1990s:

• There is a growing recognition among donors that SAPs failed to produce intended developmental outcomes.

• One of the most serious unintended consequences of donor practices in the 1980s/early 1990s is that state avoidance leads to the undermining of institutions and governance in the long term.

• This further undermines the ability of recipient countries to make and implement ‘good policy’.
Aid trends and fads (cont’d)

1990s:

- This realisation leads donors to reconsider, at least in theory, the nature of their engagement with poor countries.

- Among other things, there is awareness that the state cannot be marginalised in efforts to promote development, but must be a leading partner in such efforts.

- Donors thus begin to emphasise returning ownership to government.

- There is increased focus on the importance of institutions and ‘good governance’ to promote development.
THE NEW AID AGENDA: WHAT IS IT?
Principles embedded in the new aid relationship

• As a result of this thinking and lessons learned, the ‘Washington Consensus’ is slowly replaced by a new paradigm of effective aid.

• This new paradigm is founded on three key principles:
  
  country ownership
  partnership
  mutual accountability

• Not all donors subscribe equally to this new consensus, but no donors reject it explicitly.
Ownership

• The concept of country ownership is intended to mean that it is the recipient country that establishes its goals and priorities, and donors should follow and support those priorities.

• But it is important to recognise that ‘country ownership’ should not be reduced to ‘government’ ownership only.

• Donors and recipient governments both have a tendency to do that, which tends to leave out/marginalise other important domestic voices in the development process.
Partnership

• Partnership implies that donors and recipient governments are intended to work together as partners or equals.

• In principle, this should mean that donors are not there to dictate policies but to work together with recipient governments to identify what policies and practices might work best.

• In this respect, partnership reinforces country ownership.
Mutual Accountability

- Mutual accountability implies that donors and recipient governments are responsible to each other for their actions.

- Importantly, the concept of mutual accountability refers only to accountability between donors and recipient governments -- it does not refer to donor accountability to tax payers at home or recipient government accountability to their own citizens.

- To some critics, this is a rather narrow view of accountability.
Mutual Accountability (cont’d)

- However, it is significant since it is the first time that donors are intended to be accountable to recipient governments, at least in principle, rather than simply the other way around.

- Still, as ActionAid noted in its 2005 report on *Real Aid*, in the aggregate, recipient governments continue to have many more duties and obligations towards donors than vice versa.

- This is in large part due to the fact that recipient governments tend to have less leverage when dealing with donors because of the power imbalances inherent in the aid relationship.
Examples of ownership

- Poverty Reduction Strategy Papers (PRSPs) have been instituted to foster country ownership.

- These papers were initially developed as part of the IFI’s work on Highly Indebted Poor Countries (HIPC),

- And they are intended to be documents prepared by governments through a participatory process involving civil society and development partners.
Examples of ownership (cont’d)

- PRSPs form part of an attempt by the World Bank, the IMF, and other donors to base their funding decisions on nationally-owned poverty reduction strategies.

- To date, approximately 70 low income countries have or are preparing PRSPs.

- However, many critics have emphasised that PRSPs are in reality not as participatory or inclusionary as is claimed.
  - These papers need to get the WB ‘seal of approval’
  - Participation by groups outside the government is often shallow and pro forma
Examples of partnership

- The Millennium Development Goals (MDGs) consist of a set of eight objectives to combat world poverty.

- In 2000, leaders from virtually all countries in the world, both developed and developing, signed up to them.

- These goals are meant to be achieved through genuine partnership between donors and recipient countries.

- However, as noted in the UN Millennium Project Report prepared by Jeffrey Sachs in 2005, many countries are lagging behind one or more of these goals, and many run the risk of not meeting them by the target date of 2015.

- This is particularly true in the case of Africa.
Examples of mutual accountability

- The principle of ‘mutual accountability’ is enshrined in several international and regional agreements and declarations.

- For example, the Monterrey Consensus, which emerged from the International Conference on Financing for Development held in Mexico in 2002, emphasises shared responsibilities for achieving the MDGs:

- Rich countries have pledged to increase development assistance to 0.7% of national income, and in return recipient countries have committed to take concrete steps to improve governance, establish development priorities, and adopt sound policies for growth.
EFFORTS TO ‘SCALE UP’ AID
The importance of 2005: ‘Scaling up’ aid

- 2005 was a landmark year for this ‘new’ aid paradigm, especially 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.

- The 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, among other things.
Aid quantity

• In 2005 numerous declarations and reports called for substantial increases in aid flows: the 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
Aid quantity - Regional trends

- As can be seen from the previous graph, the sharpest percentage increase is likely to occur in Africa.

- 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 quantity - Regional trends (cont’d)

- Aid to Latin America has declined over time.

- This is mostly because Latin American countries, with very few exceptions, are considered ‘middle income’, and many donors now have decided to focus mostly on low income countries (DFID and EC, for example)

- In both Asia and Latin America, trade and remittances are beginning to play a much larger role than aid in national economies.
Aid quantity: Emerging donors

• Some countries that were previously aid recipients or continue to receive aid also emerged as ‘new’ donors.

• The most obvious examples of this include the so-called BRICS - Brazil, India, China, and South Africa, but Malaysia and others are moving in a similar direction.

• This can be a positive trend as it is likely to offer recipient governments more choice when dealing with donors.

• However, there may also be problems associated with multiplying the number of actors in the international assistance community, as will be explained below.
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, diverse 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.

- This means that there are often ‘too many cooks in the kitchen’, with dozens of donors (and often more) involved in a single country.
Multiplicity of actors

The latest newcomers include:

- the ‘emerging’ donors listed above;
- the Millennium Challenge Corporation (MCC), launched by the USA, which allocates aid based on performance criteria;
- vertical funds such as the Global Fund to fight AIDS, Tuberculosis and Malaria (GFATM), and the still unborn International Financing Facility (IFF) and the pilot IFF for Immunization (IFFIm).
**Vertical funds**

*Possible advantages:*
clear criteria, sources of high levels of additional funding

*Possible disadvantages:*
time, effort to learn rules, disbursement methods,
faddishness, not always easy to integrate well into recipients’ national strategies and budgeting frameworks,
tendency to cut across country alignment and national priorities.
Aid quality: Wal-mart vs. corner shops

- You can think of the aid market currently as looking as something like this... one Wal-Mart and a whole string of corner shops.
- In this model, the World Bank acts as the Wal-Mart, with all other agencies, both bilateral and multilateral, running much smaller operations.
The aid market structure: Wal-mart and the corner shop

- This 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.

- The irony is that, unlike supermarkets and shops, the same owners - rich country governments - control all the outlets.
HOW IS THE NEW AID AGENDA INTENDED TO BE ACHIEVED?
Aid quality: Responses

• A growing consensus has emerged, especially among OECD DAC donors and a few recipient countries, on what needs to be done to make ODA work better.

• The concepts of harmonisation and alignment have thus come to the centre of the aid agenda.
Defining Harmonisation & Alignment

- Harmonisation involves better coordination among donors.

- Alignment involves donors following or ‘aligning with’ country policies and priorities.

- Alignment also calls for increased donor reliance on national systems through PROGRAMMATIC support such as Sector-Wide Approaches (SWAps) and General Budget Support, with the intention of strengthening those government systems.
Shadow systems alignment

Some donor(s) that may not trust the government enough to rely on its national systems have begun to experiment with shadow systems alignment.

Shadow systems alignment does not give control of resources to recipient government but it does use similar rules as the state system. This provides compatibility of systems with (for example):

- administrative layers/boundaries
- planning, budgeting cycles, classifications
- accounting, procurement & audit systems
- monitoring & evaluation systems
- staffing structures & hierarchies
Paris Declaration on Aid Effectiveness

- Signed at the Paris High-Level Forum on Aid Effectiveness (2005) by:
  - 35 donor countries
  - 26 multilateral donor agencies
  - 56 countries that receive aid
  - [14 Civil society organisations - acting as observers]
Paris Declaration

Built on a platform of ownership, harmonisation, alignment, and mutual accountability (as well as managing for results) as the recipe to make aid more effective:

1. **Ownership**  
(Partner countries)

2. **Alignment**  
(Donor-Partner)

3. **Harmonisation**  
(Donor-Donor)
What’s new about the Paris declaration?

- Number and level of participants
- Detailed set of 56 specific commitments
- 12 agreed measurable indicators to be monitored through suggested targets to be reached by 2010
- Potential impact on behaviour and practice at country level
12 Indicators of Progress and monitorable targets

<table>
<thead>
<tr>
<th>OWNERSHIP</th>
<th>SUGGESTED TARGETS 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong> Partners have operational development strategies:</td>
<td>75% of countries have operational development strategies</td>
</tr>
<tr>
<td>Number of countries with national development strategies (including PRSs)</td>
<td></td>
</tr>
<tr>
<td>that have clear strategic priorities linked to a medium-term expenditure</td>
<td></td>
</tr>
<tr>
<td>framework and reflected in annual budgets</td>
<td></td>
</tr>
</tbody>
</table>
## 12 Indicators of Progress and monitorable targets

<table>
<thead>
<tr>
<th>ALIGNMENT</th>
<th>SUGGESTED TARGETS 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2</strong></td>
<td></td>
</tr>
</tbody>
</table>
| Reliable country systems: Number of partner countries that have procurement and public financial management systems that either (a) adhere to broadly accepted good practices or (b) have a reform programme in place to achieve these | *(a) PFM – half of partner countries move up at least one measure on the PFM/CPIA scale performance*  
*(b) Procurement - One-third of partner countries move up at least one measure on scale used to assess performance of this indicator* |
| **3**     |                         |
| Aid flows are aligned on national priorities (i.e. is reported on recipient government’s national budget) | *Halve the proportion of aid* flows to the government sector that is NOT reported on partners’ national budgets |
| **4**     |                         |
| Strengthen capacity by co-ordinated support consistent with partners’ national development strategies | *50% of technical co-operation flows* are implemented through co-ordinated programmes consistent with partners’ national development strategies. |
### 12 Indicators of Progress and monitorable targets

<table>
<thead>
<tr>
<th>ALIGNMENT</th>
<th>SUGGESTED TARGETS 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>5</strong></td>
<td><strong>Use of Country Systems (both PFM and procurement):</strong>&lt;br&gt;Percents of donors and aid flows that use PFM and procurement systems in partner countries that either (a) adhere to broadly accepted good practices; or (b) have a reform programme in place to achieve these.</td>
</tr>
<tr>
<td><strong>6</strong></td>
<td><strong>Strengthen capacity by avoiding parallel implementation structures:</strong>&lt;br&gt;Number of parallel project implementation units (PIUs) per country.</td>
</tr>
</tbody>
</table>
## 12 Indicators of Progress and monitorable targets

<table>
<thead>
<tr>
<th>ALIGNMENT</th>
<th>SUGGESTED TARGETS 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>7  Aid is more predictable (i.e. disbursed to agreed schedules)</td>
<td>Halve the proportion of aid disbursements that are NOT released according to agreed schedules in annual or multi-year frameworks</td>
</tr>
<tr>
<td>8  Aid is United:Percentage of bilateral aid that is untied</td>
<td>Continued progress over time [Note: this commitment remains vague]</td>
</tr>
</tbody>
</table>
## 12 Indicators of Progress and monitorable targets

<table>
<thead>
<tr>
<th>HARMONIZATION</th>
<th>SUGGESTED TARGETS 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>9 Use of common arrangements or procedures</td>
<td><em>66% of aid flows</em> are provided in the context of programme-based approaches</td>
</tr>
<tr>
<td>10 Encourage joint missions and shared analysis</td>
<td><em>40% of donor field missions are joint; and 66% of country analytic work is joint</em></td>
</tr>
</tbody>
</table>
12 Indicators of Progress and monitorable targets

<table>
<thead>
<tr>
<th>MANAGING FOR RESULTS</th>
<th>SUGGESTED TARGETS 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>11</strong></td>
<td><strong>Results-oriented frameworks:</strong> Number of countries with transparent and monitorable performance assessment frameworks to assess progress against (a) the national development strategies and (b) sector programmes</td>
</tr>
<tr>
<td></td>
<td>Reduce the gap by one-third - reduce the proportion of countries without transparent and monitorable performance assessment frameworks.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MUTUAL ACCOUNTABILITY</th>
<th>SUGGESTED TARGETS 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>12</strong></td>
<td><strong>Mutual Accountability</strong> (i.e. partner countries to undertake mutual assessments of progress on agreed commitments on aid effectiveness)</td>
</tr>
<tr>
<td></td>
<td>All partner countries have mutual assessment reviews in place to ensure all parties are honouring commitments.</td>
</tr>
<tr>
<td></td>
<td>[Note: No indication is given as to the proposed nature and mechanisms for such reviews to take place]</td>
</tr>
</tbody>
</table>
Significance

- The Paris Declaration has been described as a significant step forward in establishing ‘a set of monitorable targets for changes in donor, recipient, and joint behaviour’;

- And as providing ‘the core of a new compact on mutual accountability’.

- However, as noted above, two of the indicators - on untangling aid and promoting mutual accountability - still need to be further specified and monitorable targets set for them.
How to implement Paris in practice?

• Some recipient governments have begun to work with donors to make progress in terms of implementing the Paris agenda in practice.

• Vietnam for example has drawn up a set of principles with its development partners that provide an illustration of how the Paris agenda can be realised in practice (‘Hanoi Declaration’).

• The document includes comprehensive progress indicators and targets for 2010 that are even more ambitious than the Paris ones and reflect strong ownership by the Government of Vietnam.
How to implement Paris in practice? (cont’d)

- Other countries have drafted Harmonisation Action Plans → e.g. Cambodia.

- Others have signed Memoranda of Understanding (MOUs) or other such documents → e.g. Mozambique, Uganda, Bangladesh.

- ODI is preparing a Working Paper that looks at the experiences of recipient countries that have become relatively successful in taking the lead in managing their relationship with donors.

- Those countries include Afghanistan, Mozambique, Tanzania, Uganda, and Vietnam. The study can be made available upon request.
CHALLENGES AND TENSIONS EMBEDDED IN THE NEW AID AGENDA
Is Paris the answer?

- So does the Paris Declaration represent the end-all be-all?

- Does it provide the final answer to the disorderly chaos that has characterised the international aid system until now?

- While Paris does constitute some progress, at least in principle, some tensions and challenges remain on the agenda.
Challenges & tensions

- Aid is not just for development but is also a foreign policy tool - therefore there is an inherently political agenda not recognised/addressed in the Paris Declaration.

- Also, the Paris agenda does not seem to tackle the issue of aid dependence, which is something that greatly concerns recipient countries → is more aid really the answer?

- Aid is a minor determinant of development outcomes and many other factors matter, especially those related to the quality of country institutions and governance structures.

- These are inherently political issues, however, and donors frequently do not feel comfortable addressing them as such even if they recognise their importance.
Challenges & tensions (cont’d)

- Ownership by whom? How can it be guaranteed that not only the government but also society at large owns the development process? (PRSPs were an effort in that direction but people have been disillusioned by the process and outcome)

- Accountability to whom? donors, donor taxpayers, recipient country populations...

- Lack of coherence of donor policies: often aid policies are not coherent with trade policies, etc., so the effects of policies that do not complement each other tend to cancel each other out.

- Issue of country selectivity: need vs. concerns about legitimising abusive regimes.
Challenges & tensions (cont’d)

- Harmonisation vs. alignment → ‘ganging up’ or harmonising in the ‘wrong direction’?

- Many recipient governments fear that if donors harmonise too much, they will be left with fewer choices and could confront a united front of donors.

- Alignment to what? Problem of multiple, weak, bad or non-existent systems or policies in recipient countries.

- Making shadow systems alignment happen.

- Eligibility criteria: minimum standards vs. direction of change.

- Results monitoring: how far down the causality chain?
Finally, the OECD DAC, which is behind efforts to scale up aid through the Paris Declaration, is an exclusive club of wealthy and mostly Northern donors.

Emerging donors like China have not been able to become members of the club yet.

But 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?
WHERE ARE SOUTHERN VOICES IN THIS DEBATE?
Role of Southern Voices in this debate?

• Importantly, most of the impetus and intellectual leadership for reforming the international aid system along the lines described above has come from OECD DAC donors themselves.

• Northern CSOs (such as Oxfam and ActionAid) 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 tends to be true for Southern governments and especially for Southern CSOs.
How to inject Southern Voices into this debate?

- ODI has been involved in at least two important initiatives on this front:

- Coordinating and facilitating the ‘Southern Voices for Change in the International Aid System’ project; and

- Working with the Commonwealth Secretariat and La Francophonie on a set of workshops on the future of aid and how to reform the international aid system from a user perspective.
Initiatives: Southern Voices project

• This project has consisted of capturing the views and perspectives of Southern-based civil society organisations on how the international aid system works and how it ought to be reformed.

• Its main outputs have consisted of:
  1) a Workshop held at ODI in November 2005 with CSO representatives from Africa, Asia and Lat Am (as well as donors and INGO representatives)
  2) a virtual Forum on the Future of Aid (FFA) to stimulate a broader discussion on the aid system among interested parties - see www.futureofaid.net.
  3) a working paper titled ‘Which way the future of aid?’, which has been added to the reading list of this course.
The FFA:
Initiatives: Commonwealth/Francophonie workshops

- Three workshops have been organised by the Commonwealth and the Francophonie with senior government officials and civil society representatives in the UK (London, January 2005), Asia (Bangladesh, April 2006) and Africa (Cameroon, forthcoming).

- The aim is to work toward the preparation of a paper on the international aid system and how to reform it to present at the Commonwealth Senior Finance Officials Meeting in Colombo in September 2006.

- That meeting will be held at the time of the Commonwealth Finance Ministers Meeting.
Thank you

Centre for Aid and Public Expenditure
Overseas Development Institute
111 Westminster Bridge Road
London SE1 7JD
Tel: 020 7922 0300
Fax: 020 7922 0399
Email: a.rochamenocal@odi.org.uk
Website: www.odi.org.uk