

Emerging Aid Architecture: Tightening the Conditionalties?

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The OECD took a major lead for reforming the global aid architecture which led to the adoption of the Paris Declaration at the Second High-Level Forum on Aid Effectiveness which took place in Paris in 2005. This was signed by more than 100 partner and donor countries and international organizations and civil society organizations. The Paris Declaration defines five dimensions – ownership, alignment, harmonisation, managing for results and mutual accountability. The OECD web site lists twelve indicators which are to be used to gauge the degree to which these donor and partner country commitments are met by 2010. It is very important for India and other developing countries to ensure that the letter and spirit of Paris Declaration do not get lost in Accra, where Third High Level Forum (HLF-3) on Aid Effectiveness is being hosted from September 2nd to 4th in Accra, Ghana.

The proposed text (the 18 March 2008 version) of the Ministerial Statement, to be adopted at the HLF-3 on Aid Effectiveness called Accra Agenda for Action (AAA), does acknowledge the ineffectiveness of aid policies but the corrective measures it comes up with, actually forecloses all options that the Paris Declaration so effectively provided to the developing countries or the so-called ‘aid recipients’. Moreover, there are problems with the indicators and processes suggested in the AAA. The drafting team itself was not a representative team from the developing world.¹ The current form of AAA would bypass the aid effectiveness debate completely.

The Consensus Group for Accra has come up with a lowest common denominator consensus document in which all specific details and pronouncements for time-bound goals and donor commitments have been washed off. In the current format all responsibilities and

expectations have been thrust upon the aid recipients. The idea of designing country based action plans by the recipients without any mechanism for holding donors accountable for lack of predictability and timeliness is bereft of the very rationale of applying the concept of ‘mutual accountability’. The proposed work plan at AAA needs to be backed up with specific time-bound commitments, as was originally envisaged.

New Aid Architecture

In the recent past, the role of development assistance has re-emerged as an important policy tool as part of the poverty reduction strategy (PRS), overcoming the prescriptions of neo-liberal orthodoxy of market forces and also suggesting a sort of back off for the State. This process has been further catalysed by the emergence of large developing economies, which have multiplied their contributions for development cooperation many times over. It is being expected that the emergence of new actors on the global economic horizon may transform the approach to development assistance.²

The international dynamics of aid flows is likely to undergo a major change with significant entry of emerging economies from the developing world. At this point the global assistance from Development Assistance Committee (DAC) is around US \$ 116 billion and the non-DAC is around US \$ 9 billion and that from private foundations is around US \$ 58-68 billion.³ The DAC comprising nearly 22 members of the OECD, annually releases the data on development assistance from the DAC Secretariat (see Figure 1). It also covers details of development cooperation by non-DAC OECD members and some details on non-OECD members. The non-DAC OECD members include Turkey (US \$ 601 million), Korea (US \$ 752 million), Mexico, Czech

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¹ There were only four developing countries involved viz. Vietnam, Nicaragua, South Africa and Ghana (as vice-chair and HLF host country). The other members of the Steering Committee included: the US, Canada, Japan, UK, European Commission, World Bank, OECD, UN Development Group, UNDP, and the African Development Bank. See for further details South Centre (2008) 'Comments on the 3rd High Level Forum on Aid Effectiveness' First Consultative Draft of the Accra Agenda for Action (AAA)". An Analytical Note, SC/GGDP/AN/GEG/6, May, Geneva, Switzerland.

² Chaturvedi, Sachin (2008) *Emerging Patterns in Architecture for Management of Economic Assistance and Development Cooperation: Challenges and Policy Inferences for India*, *RIS Discussion Paper 139*.

³ Kharas, Homi (2007) "Trends and Issues in Development Aid", Wolfensohn Centre for Development, Working Paper 1, November; Serageldin, Ismail (1995) 'Nurturing Development: Aid and Cooperation in Today's Changing World', World Bank, Washington D.C.

⁴ Manning Richard (2006) "Will Emerging Donors change the Face of International Cooperation? Lecture delivered at Overseas Development Institute, London, March 9.

⁵ Chahoud, Tatjana (2007). "Talking of Rogue Aid: Mirror, Mirror on the Wall... Moises Naim and the new donors", *World Economy and Development in Brief*, Issue 3, May-June.; Jobelius, Matthias (2007) 'New Powers for Global Change? Challenges for the International Development Cooperation: The Case of India'. Dialogue on Globalization, *FES Briefing papers* 5, March, FES Berlin, Friedrich Ebert Stiftung.

⁶ Naim, Moises (2007). 'Rogue Aid', in: Foreign Policy, Washington DC, March/April.

Republic (US \$ 135 million), Hungary (US \$ 100 million), Iceland (US \$ 27 million), Poland (US \$ 205 million) and Slovakia (US \$ 56 million). The current level of aid from non-DAC OECD members stands somewhere around US \$ 1.8 billion that is expected to be doubled by 2010.⁴

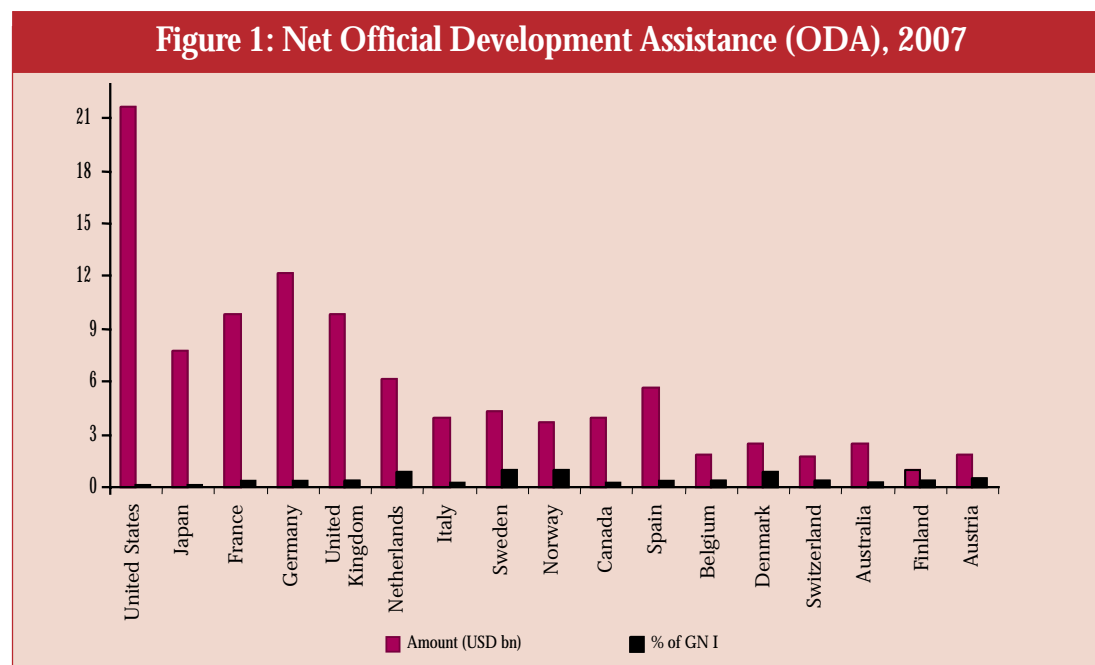
The increasing quantum of South-South cooperation particularly in infrastructural sectors in Africa has attracted huge debate in the OECD world. Although entry of emerging economies into the realm of development cooperation is in the framework for South-South Cooperation, it is largely being perceived as a threat to the dominance of traditional donors.⁵ In fact, trends are discernible to discredit the programmes of emerging economies as rogue aid,⁶ in the case of China, or is being described as an instrument for government's foreign and economic policy as in the case of India.⁷ The development cooperation programmes from emerging economies particularly from China, India, Brazil and South Africa have come up on 'global' agenda. Their economic partnership programmes are being kept at par with that of the OECD 'donor' economies and are being targeted at with different perspectives.⁸ It is important to acknowledge here that, precisely because of these reasons, the emerging economies may not prefer to be called as 'donors', but they see themselves as 'development partners'. It is important to realise that the new economic strength with these countries may bring South-South cooperation out of its rhetorics to the more substantive operational level.⁹ This is likely to place South-South cooperation in a different

context altogether, hitherto largely confined to dissenting voices or group formations at the international negotiations.

China has announced the setting up of China-Africa Development Fund with an initial investment of US \$ 5 billion.¹⁰ India has announced setting up of an India International Development Cooperation Agency (IIDCA) with an enhanced budget of US \$ 1 billion per year of assistance. India is also exploring possibilities for trilateral cooperation by playing a major role in the area of professional skills. Necessary inputs such as finance and technology are being combined for optimizing returns on development expenditure. Recently, it has been proposed that India would partner with Germany in Africa for various infrastructure projects. Indian Council of Medical Research (ICMR) and Helmholtz Association (the largest German scientific organisation) have come together for a Euro 4.5 million project to study various infectious diseases which have affected more than 17 million people across the globe. Similarly, DFID is also exploring the possibilities for trilateral cooperation with India.

Among the emerging economies, Brazil is the only country with an operational dedicated agency for development cooperation, and it is also the only country whose development cooperation programme is open to local NGOs and other stakeholders. The development assistance programme of South Africa is highly region-centric and is largely instrumentalised through the regional initiatives like the New Partnership for Africa's Development (NEPAD)

Figure 1: Net Official Development Assistance (ODA), 2007



and SADC. At this point there is no dedicated agency for development cooperation in South Africa. Most aid of South Africa is untied aid and is channeled through the Ministry of Foreign Affairs and the Africa Renaissance Fund. It has been proposed that a new agency be established to consolidate the out-going aid which may be called as the South African International Development Agency (SAIDA). Though South Africa is open to trilateral partnership with other major donors, the process has not begun as yet.

Recipients' Capacity and Mutual Accountability Framework

The current draft suggests that at the country-level implementation would be strengthened through mutual accountability mechanisms drawing upon the best practices such as institutionalized reviews of local harmonisation action plan and country assistance strategies for public procurement. The government procurement is the term used for the purchasing activities of governmental and government-controlled entities. The proposed mutual accountability framework for procurement system suggests to have only the 'donor' and 'recipient' countries and no oversight agency. It is worth recalling that most of the developing countries had opposed any WTO agreement on public procurement. As a result, no consensus could emerge on Singapore Issues of which public procurement was a part. Discussions on a possible multilateral Agreement on Transparency in Government Procurement was dropped from the WTO agenda following the 2003 Ministerial Conference in Cancún. There is a plurilateral agreement, which governs the issues related to public procurement. It is specifically exempted from the WTO national treatment obligation (GATT Article III:8).

This assumes further importance in light of the fact that recipients generally have little capacity to deal with such complicated issues on their own. In such situations, efforts are required to improve public accountability mechanisms for aid assisted programmes along with existing national public accountability mechanisms.¹¹ Apart from this presence of external agencies is desirable, for strengthening of domestic accountability mechanisms (such as Parliament and the media), including assessment of donors' performance on their commitments. These commitments require far more preparedness of the recipient countries than is being perceived at Accra. It becomes all the

more challenging when 'recipients' and 'donors' share an unequal power relationship.

New Manifestation of Conditionality

The Paris Declaration, attempted to initiate a broad dialogue on policy reforms emphasizing on adoption of internationally agreed development goals, human rights obligations, gender equality, the ensuring of decent work for all, commitments to address disability issues, and the protection of environmental sustainability etc. But the current draft of AAA intends to impose conditionalities, hitherto observed only in the Bretton Woods institutions administered programmes. There can be little debate on the relevance of the policy reforms in the developing world particularly in the areas such as environment protection, social inequalities and human rights but they should not be imposed on the recipients. If developing countries are allowed to voluntarily adopt and implement sound policies with clear outcome-based strategies and targets developed through active engagement with key national stakeholders, then policy-based conditionality of the past would not be necessary for compliance.¹² Instead, country ownership of a reform programme can be used as a form of reverse conditionality to address policy implementation and sustainability.

In this context, it is interesting to recall what was expressed at the HLF-3 preparatory workshops by the participants, who reported that donors in their view remain reluctant to use country systems (including for monitoring and evaluation) and they feel that "the goalposts are continually moving" in this regard.¹³ This comment referred to the full range of "country systems", including project management, financial management, procurement, safeguards, monitoring and evaluation, and results.

Way Forward

In this context, emergence of Development Cooperation Forum (DCF) raises many expectations, largely in terms of evolving a broader consensus for a global strategy for addressing global challenges. There is a hope that this UN forum will be committed to make the development agenda more inclusive by bringing in trilateral cooperation at the centre stage and by making aid flows to be more efficient, responsible and development friendly. At the First DCF meeting, almost all the countries have dedicated themselves to support the extension of further debt relief to HIPC (Highly indebted poor countries) and low

⁷ Jobelius, Matthias (2007). 'New Powers for Global Change? Challenges for the International Development Cooperation: The Case of India'. Dialogue on Globalization, FES Briefing papers 5, March. FES Berlin. Friedrich Ebert Stiftung.

⁸ Altenburg, Tilman (2007). 'Trilateral Development Cooperation with "New Donors"', German Development Institute, Bonn.

⁹ Though it is not very clear when flows between developing countries be looked as 'south-south cooperation' and when it falls in the category of 'development assistance'.

¹⁰ Jintao, Hu (2006). 'Address at the Opening Ceremony of the Beijing Summit of the Forum on China-Africa Cooperation', November 4. Beijing.

¹¹ South Centre (2008). 'Comments on the 3rd High Level Forum on Aid Effectiveness' First Consultative Draft of the Accra Agenda for Action (AAA)". An Analytical Note, SC/GGDP/AN/GEG/6, May, Geneva, Switzerland.

¹² Kasekende Louis (2006) 'Country Ownership of Policy Reforms and Aid Effectiveness: The Challenge of Enhancing the Policy Space for Developing Countries in Aid Relationships,' presentation made at the Aid as Negotiation Workshop at Oxford, 26-27 September.

¹³ <http://siteresources.worldbank.org/ACCRAEXT/Resources/4700790-1205870632880/Summaryofpartnercountryconsultations.pdf>

¹⁴ Das, Siba K. Leelananda De Silva and Yiping Zhou (2008). "South-South Development Cooperation: A Major Force on the International Scene", Background note for High Level Symposium on, "Result-oriented Development Cooperation: Pursuing National Interests", January 19th 20th, Cairo.

¹⁵ Sharma, Shantanu Nandan (2006). 'India Finally Agrees to Paris Declaration on Aid',

December 3,

¹⁶ Ruth. Vargas Hill (2005) Assessing Rhetoric and Reality in the Predictability of Aid, Human Development Report Office, Occasional Paper for HDR 2005, New York

income countries facing problems of inadequate resources even for financing Millennium Development Goals.

However, it is important to ensure that instead of posing DCF as an alternative to DAC, India takes a lead to tap the synergies between the two organisations, particularly in terms of reporting, analysing and publication of development cooperation related details. There are already some efforts to tap the strengths of DAC and potential gains from DCF. The Special Unit for South-South Cooperation in UNDP and OECD/ DAC organised a meeting between DAC and 15 emerging economies to discuss aid efficiency and effectiveness in February 2005.¹⁴ Similarly, OECD also launched the Global Forum on Development 2008 to improve the dialogue further. During the 2006-09, the Forum would address issues related to architecture and functioning of international development finance system.

However, the work agenda should also include sincere efforts for putting disaggregated information, necessary for monitoring the implementation of various commitments together so as to enable policy makers for effective decision-making.

At the same time there is more to be desired on the part of the emerging economies including India as well. Even if they do not accept OECD conditionalities for data reporting and its classification, they may at least consider mechanisms for impact assessment in DCF. For instance, though India has accepted Paris Declaration on aid¹⁵ but it is perceived that this 'acceptance' is only as a recipient and not as a donor. This probably might be true for other emerging economies as well. The DAC has developed robust methodologies for data collection and analysis, which may be developed in specific context of developing countries. As discussed, the very definition of development assistance, as perceived by developing countries and the one followed at DAC, are very different propositions. In context of certain developing countries, foreign

assistance encompasses not only grants and loans but also commercial investments, trade related concessional financing and educational and cultural programmes.

There is much to be desired from the donors as well. They should enlist commitments which should be independent of the actions expected from the developing countries. The donors should come forward to announce their commitments towards providing timely and accurate information on all their aid flows, including reliable timeframes for future aid flows. At the Monterrey Conference it was emphatically raised that ODA forms an important part of public financial flows to developing countries, especially to the least developed countries and it is very important that they have consistency and stability. In fact, the statement adopted at the end of this meeting identified clear linkages between aid effectiveness and resource predictability. In case of Sub-Saharan Africa the difference between commitments and disbursements can be as much as +/- 20% of commitments and that on average over the period 1975 – 2002 disbursements were less than commitments by 4.9 per cent.¹⁶

There is also an urgent need to shift the focus from Accra to Doha where a World Conference on Financing for Development (FfD) is scheduled to take place towards the end of 2008. It is intending to review the implementation of Monterrey's decisions and determining the new initiatives that would be necessary to meet the MDGs. For most of the developing countries this is a UN-led inter-governmental process which offers an opportunity to raise public and official debate about individual and systemic issues affecting development finance and being the UN forum it may provide far more space to aspirations and expectations of the developing world for ensuring accountability while resources are channelised for economic development.

However, the opportunity at Accra should be used to let the debate remain open on aid effectiveness and facilitate discussions without losing the spirit of Paris Declaration.

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