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# **PRIMER on DEVELOPMENT and AID EFFECTIVENESS**



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# PRIMER ON DEVELOPMENT AND AID EFFECTIVENESS

## Introduction

The issue of aid effectiveness has gained prominence in recent years especially with the signing of the Paris Declaration on Aid Effectiveness at the Paris High Level Forum II organized by the Organization for Economic Cooperation and Development on February 28 - March 2, 2005. The Paris Declaration is an unprecedented achievement for the international donor community and the partner governments, committing themselves to key principles for aid reform.

Since the aid effectiveness agenda is narrowly focused on aid management and delivery, there is little knowledge of the issue among broader circles of the development community and even more so among civil society organizations, parliaments, media and the public in general. It is often not understood that the aid effectiveness agenda actually addresses the crucial issues of reforming relationships in development cooperation and aid which are as old as official development aid itself.

The contentious issues of concessionary loans as a form of development assistance, debt crises, tied aid and conditionality have rightly been prominent in CSO advocacy as these address the most urgent issues related to development and development finance. But these issues are rightly part of the aid effectiveness agenda as they relate to aid relationships including the role and responsibility of CSOs and other actors to ensure transparency and accountability in ODA funded development concerns, as well as the overall issue of democratic development.

Civil society organizations play an important role in development cooperation. They are also important and distinctive contributors to aid effectiveness because

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of their independence, their advocacy and watchdog roles, their close connections to the poor or their effectiveness as channels for aid delivery.

CSOs have a crucial role to play in aid effectiveness especially in the area of advocacy and monitoring. In most recipient countries to date there has been little or no collaboration between governments and CSOs in trying to make aid effective under the *Paris Declaration*. At the same time, there is a general recognition that the *Paris Declaration* is a crucial component of a larger aid effectiveness agenda that could engage civil society actors in a more direct manner. On the other hand, CSOs also seek to further advance the issue of aid reform beyond the Paris Declaration and deepen the aid effectiveness agenda to cover such issues as conditionality, tied aid, and developing better accountability mechanisms nationally and internationally.

As donors and governments work towards the implementation of the March 2005 *Paris Declaration on Aid Effectiveness* and review their achievements at the High Level Forum III in September 2008 in Accra, Ghana, CSOs will utilize all opportunities to advance their demands to deepen the aid effectiveness agenda on one hand and strive for effective implementation of Paris Declaration commitments by recognizing the proper role of civil society organizations in development and achieving aid effectiveness reform.

This Primer on Development and Aid Effectiveness is primarily meant to explain the aid effectiveness agenda in the overall context of development issues and concerns such as debt, debt cancellation, and increasing ODA for poverty reduction and achieving the Millennium Development Goals. The intention of this primer is to address the perspectives and concerns of grassroots and membership based civil society organizations (CSOs).

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# I. DEVELOPMENT AND HUMAN RIGHTS

## What is development?

Human development can be viewed as the process of achieving an optimum level of health and well-being of the human person or a nation. It includes physical, biological, mental, emotional, social, educational, economic, and cultural components.

Human development is about much more than the rise or fall of national incomes. It is about creating an environment in which people can develop their full potential and lead productive and creative lives in accord with their needs and interests.<sup>1</sup>

People are the real wealth of nations. Development is about expanding the choices people have to lead lives that they value. And it is thus about much more than economic growth, which is only a means —albeit a very important one —of enlarging people’s choices.

Fundamental to enlarging these choices is building human capabilities —the range of things that people can do or be in life. The most basic capabilities for human development are to lead long and healthy lives, to be knowledgeable, to have access to the resources needed for a decent standard of living and to be able to participate in the life of the community. Without these, many choices are simply not available, and many opportunities in life remain inaccessible.<sup>2</sup>

This way of looking at development, often forgotten in the immediate concern with accumulating commodities and financial wealth, is not new. Philosophers, economists and political leaders have long emphasized human wellbeing as the purpose, the end, of development.

Human development shares a common vision with human rights. The goal is human freedom. People must be free to exercise their choices and to participate in decision-making that affects their lives. Human development and human rights are mutually reinforcing, helping to secure the well-being and dignity of all people, building self-respect and the respect of others.<sup>3</sup>

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<sup>1</sup> United Nations Development Programme, <http://hdr.undp.org/hd/>

<sup>2</sup> Ibid

<sup>3</sup> Ibid

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### **What are Economic, Social, and Cultural rights?<sup>4</sup>**

Economic, social, and cultural rights (ESCR) include the human right to work, the right to an adequate standard of living, including food, clothing, and housing, the right to physical and mental health, the right to social security, the right to a healthy environment, and the right to education.

ESCR are part of a larger body of human rights law that developed in the aftermath of World War II. Human rights law includes all economic and social rights, plus civil and political rights like the right to free speech and the right to a fair trial. These rights are deeply intertwined: for example, the right to speak freely means little without a basic education. Similarly, the right to work means little if you are not allowed to meet and assemble in groups to discuss work conditions.

The most important human rights law is in the International Bill of Human Rights, which includes the Universal Declaration of Human Rights (1948), the International Covenant on Civil and Political Rights, and the International Covenant on Economic, Social and Cultural Rights.

Economic and social rights require governments and other powerful actors to ensure that people have access to basic needs, and that people have a voice in decisions affecting their well-being. Poverty and injustice are neither inevitable nor natural, but arise from deliberate decisions and policies, and the human rights legal framework provides a way to hold public officials accountable for development policies and priorities.

### **What is the right to development?**

On 4 December 1986 the General Assembly of the United Nations adopted resolution 41/128 and issued the Declaration on the Right to Development.

Article 1 of the Declaration states that “the right to development is an inalienable human right by virtue of which every human person and all peoples are entitled to participate in, contribute to, and enjoy economic, social, cultural and political development, in which all human rights and fundamental freedoms can be fully realized.”

The right includes: full sovereignty over natural resources; self-determination; popular participation in development; equality of opportunity; the creation of conditions for the enjoyment of other civil, political, economic, social and cultural rights.

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<sup>4</sup> Center for Economic and Social Rights; <http://cesr.org/basic>

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The human person is identified as the beneficiary of the right to development, as of all human rights. The right to development can be invoked both by individuals and by peoples. It imposes obligations both on individual States - to ensure equal and adequate access to essential resources - and on the international community - to promote fair development policies and effective international cooperation.

The World Conference on Human Rights, held in Vienna in 1993, dealt extensively with the right to development. It adopted the Vienna Declaration and Programme of Action, which recognizes that democracy, development and respect for human rights and fundamental freedoms are interdependent and mutually reinforcing. The conference reaffirmed by consensus the right to development as a universal and inalienable right and an integral part of fundamental human rights.

Among the provisions in the Declaration on the Right to Development appropriate to our present purposes are the following:

*Article 1*

1. The right to development is an inalienable human right by virtue of which every human person and all peoples are entitled to participate in, contribute to, and enjoy economic, social, cultural and political development, in which all human rights and fundamental freedoms can be fully realized.

2. The human right to development also implies the full realization of the right of peoples to self-determination, which includes, subject to the relevant provisions of both International Covenants on Human Rights, the exercise of their inalienable right to full sovereignty over all their natural wealth and resources.

*Article 3*

1. States have the primary responsibility for the creation of national and international conditions favorable to the realization of the right to development.

2. The realization of the right to development requires full respect for the principles of international law concerning friendly relations and co-operation among States in accordance with the Charter of the United Nations.

3. States have the duty to co-operate with each other in ensuring development and eliminating obstacles to development. States should realize their rights and fulfill their duties in such a manner as to promote a new international economic order based on sovereign

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equality, interdependence, mutual interest and co- operation among all States, as well as to encourage the observance and realization of human rights.

*Article 4*

1. States have the duty to take steps, individually and collectively, to formulate international development policies with a view to facilitating the full realization of the right to development.
2. Sustained action is required to promote more rapid development of developing countries. As a complement to the efforts of developing countries, effective international co-operation is essential in providing these countries with appropriate means and facilities to foster their comprehensive development.

### **What is the role of international cooperation in the realization of the right to development?**

Article 4 of the Declaration on the Right to Development states:

- 1. States have the duty to take steps, individually and collectively, to formulate international development policies with a view to facilitating the full realization of the right to development.*
- 2. Sustained action is required to promote more rapid development of developing countries. As a complement to the efforts of developing countries, effective international co-operation is essential in providing these countries with appropriate means and facilities to foster their comprehensive development.*

Article 4 of the declaration must be read in conjunction with Article 1 of the charter of the United Nations referring to the purpose of the United Nations “to the achievement of international cooperation in solving international problems of an economic, social, cultural and humanitarian nature and in promoting and encouraging respect for human rights and fundamental freedoms.”

The case of international cooperation could be further strengthened by referring also to Article 55 and 56 of the Charter. According to these articles, member states pledge themselves to take joint and separate actions to promote (a) high standards of living, full employment and conditions of economic and social progress and development, (b) solutions of international economic, social, health

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and related problems and international cultural and education cooperation, and (c) universal respect for and observance of human rights and fundamental freedoms without distinction as to race, sex, language, or religion. Then the Charter declares that all members of the United Nations Organizations “pledge themselves to take joint and separate actions in cooperation with the organization for the achievement of these purposes.”<sup>5</sup>

The Vienna Declaration of 1993, which established the consensus about the right to development as a human right, reaffirms the solemn commitment of all states to fulfill these obligations in accordance with the Charter of the United Nations ; that states should cooperate with each other in ensuring development and eliminating obstacles to development, and that the international community should promote effective international cooperation for the realization of the right to development; that progress towards the implementation of the right to development requires effective development policies at the national level, and a favorable as well as equitable economic environment at the international level, and that the international community should make all efforts to alleviate specific problems such as the external debt burden of developing countries to supplement the efforts of the governments of these countries.<sup>6</sup>

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<sup>5</sup> The Right to Development as a Human Right, Arjun Sengupta, December 1999, Harvard School of Public Health

<sup>6</sup> Ibid

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## **II. DEVELOPMENT COOPERATION AND ASSISTANCE**

International cooperation takes various forms in the field of economic development such as in trade, science and technology, development finance, and so on. In the field of development finance, development cooperation takes the main form of financial assistance through official development assistance which comes in the form of financial grants, grants in kind or in the form of services, and concessional loans.

Development cooperation is subject to the myriad issues of international relations and should properly be observed under the principles of international cooperation – that of equality and mutuality or mutual cooperation and benefit. As development cooperation implies, the relationship is inherently between a weak and a strong party, and oftentimes subject to asymmetrical relationships and political economic structures of domination and exploitation. In the area of development finance, the issues of promotion of corporate interests, policy conditionality that promote unequal interests and the relationship of debt bondage are prominent. The question of undue interference of corporate interests in development cooperation are behind issues of appropriateness of large development projects funded through loans and issues of tied aid, as well as structural adjustment conditionalities that promote free trade and investment for corporate benefit.

Development aid has a critical role to play in assisting development and the attainment of the development goals of developing countries, especially when it is deployed effectively in an accountable manner as part of a wider development strategy. It can make a lasting difference in helping people to lift themselves out of poverty.

At the United Nations General Assembly in 1970, rich countries promised to spend 0.7% of GNI on Official Development Aid (ODA).

“In recognition of the special importance of the role which can be fulfilled only by official development assistance, a major part of financial resource transfers to the developing countries should be provided in the form of official development assistance. Each economically advanced country will progressively increase its

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official development assistance to the developing countries and will exert its best efforts to reach a minimum net amount of 0.7 per cent of its gross national product at market prices by the middle of the Decade. “

— *International Development Strategy for the Second United Nations Development Decade, UN General Assembly Resolution 2626 (XXV), October 24, 1970, para. 43*

## **How did Official Development Aid evolve?**

The emergence of Official Development Aid (ODA) can be traced back to the relative success of the post-World War II Marshall Plan for re-building Europe. The prevailing view then was that development would naturally occur in poorer areas of the world through the injection of initial amounts of capital in combination with the provision and teaching of technical skills needed to develop.

The prevailing view today is that the path toward achieving development is not as narrow and straightforward a concept as it was once conceived. The environment in which development cooperation takes place has been complicated by the emergence of many new players including the IMF, World Bank, a host of regional development banks, the UN agencies, global funds and private foundations and NGOs as well as the role played by smaller international fora such as the G8 summit meetings. Internal factors within states have also been recognized as imperative to the success of development cooperation initiatives. Civil wars, corruption, unstable financial and investment climates as well as environmental instability, malnutrition and disease are all key factors affecting the relative success or failure of any ODA program.

Theories on how best to provide and implement ODA initiatives have changed and evolved over time in accordance with both domestic and international political and economic climates. In the latter half of the 1940s development thinking led to such practices as import-substitution industrialization, big investments to “kick-start” self-sustaining economic growth and an emphasis on the importance of developing sound economic practices and strengthening domestic economies that all nation states could adopt. It was believed these practices would lead to growth, prosperity and development.

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In the mid-1970s, however, a series of shocks to the global economic system, among them the debt crisis, oil shocks, financial and trade imbalances, demographic and geographic shifts and new technologies, led to economic, political and social tensions worldwide.

The processes of Globalization, embodying the principles of trade liberalization, the opening up of domestic industry investment to free-market forces, privatization and deregulation, gained prominence. This overarching “Washington Consensus” approach to development in the 1990s was later moderated by post-Washington consensus approaches that addressed development issues that led to establishing the Millennium Development Goals (MDGs) in 2000 while neoliberal reforms that had been initiated in the 1980s continue to be strengthened through more conditionalities and through trade and economic partnership agreements such as the WTO.

**The “Washington Consensus” included ten broad sets of recommendations:**

- Fiscal policy discipline;
- Redirection of public spending from indiscriminate subsidies toward broad-based provision of key pro-growth, pro-poor services like primary education, primary health care and infrastructure investment;
- Tax reform – broadening the tax base and adopting moderate marginal tax rates;
- Interest rates that are market determined;
- Competitive exchange rates;
- Trade liberalization – liberalization of imports, with particular emphasis on elimination of quantitative restrictions (licensing, etc.); any trade protection to be provided by low and relatively uniform tariffs;
- Liberalization of inward foreign direct investment;
- Privatization of state enterprises;
- Deregulation – abolition of regulations that impede market entry or restrict competition, except for those justified on safety, environmental and consumer protection grounds, and prudent oversight of financial institutions; and,
- Legal security for property rights.

Many critics of the Washington Consensus see its prescription on trade liberalization as a way to open the labor market of underdeveloped economies to exploitation by companies from the more developed economies. The prescribed reductions in tariffs and other trade barriers allow the free movement of goods across borders according to market forces, but labor is not permitted to move freely due to tough visa laws. This creates an economic climate where goods are manufactured using cheap labor in underdeveloped economies and then exported to rich First World economies for sale at what the critics argue are huge markups, with the balance of the markup said to accrue to large multinational corporations. The criticism is that workers in the Third World economy nevertheless remain poor, as any pay raises they may have received over what they made before

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trade liberalization are said to be offset by inflation, whereas workers in the First World country become unemployed, while the wealthy owners of the multinational grow even more wealthy.

Anti-globalization critics further argue that First World countries predatorily impose the consensus's neoliberal policies on economically vulnerable countries through organizations such as the World Bank and the International Monetary Fund and by political pressure and bribery. They argue that the Washington Consensus has not, in fact, led to any great economic boom in Latin America, but rather to severe economic crises and the accumulation of crippling external debts that render the target country beholden to the First World.

Many of the policy prescriptions (e.g., the privatization of state industries, tax reform, and deregulation) are criticized as mechanisms for ensuring the development of a small, wealthy, indigenous elite in the Third World who will rise to political power and also have a vested interest in maintaining the local status quo of labor exploitation.

## **What are the Millennium Development Goals?**

The overarching framework of the MDGs supports nationally designed and owned poverty reduction strategies. The MDGs are a set of time-bound and measurable goals and targets designed to decrease poverty, hunger, disease, illiteracy, environmental devastation and discrimination against women. The MDGs are a unique approach to these global problems. They confer obligations on both rich and poor governments, but place a heavier burden on rich countries.<sup>7</sup>

At the UN General Assembly in September 2000, the international community brought forth a vision to meet the challenges of the 21<sup>st</sup> century. In the Millennium Declaration, they articulated a global consensus focusing on global justice, and in particular committed to the achievement of the Millennium Development Goals (MDGs) by 2015. For all donors, these Goals combined with strategies to improve aid effectiveness and renewed North/South partnership, were to become the defining paradigm of international cooperation for the next 15 years.<sup>8</sup>

Adopted by both developed and developing countries, the MDGs respond to clear humanitarian and ethical imperatives to end global poverty and place a clear responsibility on all development actors—official donors, multilateral institutions, civil society organizations and the private sector—to contribute to their realization.<sup>9</sup>

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<sup>7</sup> The Reality of Aid 2004

<sup>8</sup> Ibid

<sup>9</sup> Ibid

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The stakes are high and the costs of inaction can be catastrophic for hundreds of millions of people around the world. One third of all human deaths—some 18 million people a year or 50,000 daily—are due to poverty-related causes such as hunger, diarrhoea, pneumonia, tuberculosis, malaria, etc—which could be prevented or cured easily, and increasingly HIV/AIDS, which is still largely untreated among people living in poverty.

### **A human development disaster in the making**

- More than a billion people live on less than \$1 a day, and half the population of developing countries on less than \$2 a day;
- 18 countries with a combined population of 460 million had a lower human development index (HDI) in 2005 than in 1990;
- Inequality is widening, with 40% of the world's population reaping a diminishing 5% of global wealth, while the richest 10% account for 54%;
- At the end of 2004, the UNHCR was caring for just under 20 million refugees;
- The FAO suggests that protracted crises and conflict in developing countries are now the leading cause of hunger in the world today.

*Sources: UNDP Human Development Report, 2006; UNHR, Refugee by Numbers 2005; FAO Committee on Food Security, May 25, 2005.*

The UNDP's 2003 Human Development Report shows that the era of globalization has been accompanied by high levels of poverty and a widening inequality gap, where the richest 5% of the world's people receive 114 times the income of the poorest 5%.

The Millennium Development Goals (MDGs) are the end product of numerous UN development conferences from the 1960s to 1990s. The First, Second and Third UN Development Decades (1960s, 1970s, 1980s) focused largely on economic growth. In the 1990s, debates about development focused on the need to establish macroeconomic stability, strong institutions and governance, enforce the rule of law, control corruption, and provide greater social justice. As a result, the MDGs reflect the emerging role of human rights in the international community, focusing on the economic, social and cultural rights enumerated in the Universal Declaration of Human Rights (rights to food, education, health care, and decent standard of living).<sup>10</sup>

Amidst a growing demand especially from civil society organizations for more aid, the UN organized the International Conference on Financing for

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<sup>10</sup> 2000 Millennium Development Goals by Diana Wagner; The University of Iowa Center for International Development and Finance

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Development. The result was the Monterrey Consensus adopted by over fifty Heads of State and two hundred Ministers of Finance, Foreign Affairs, Development and Trade participated in the event. Governments were joined by the Heads of the United Nations, the International Monetary Fund (IMF), the World Bank and the World Trade Organization (WTO), prominent business and civil society leaders and other stakeholders.

The aim of the conference had been to examine the Millennium Development Goals especially the goal of halving the number of people living in absolute poverty by 2015, for their financial implications and to indicate ways of mobilizing the financial resources needed to achieve them.

New development aid commitments from the United States and the European Union and other countries were made at the conference. Concretely, the US and EU pledged to increase their aid by US \$ 12bn per annum from 2006. Countries also reached agreements on other issues, including debt relief, fighting corruption, and policy coherence.

### **What are the objectives of the Millennium Development Goals?**

The primary objective is to cut poverty in half across the globe by the year 2015. There are eight MDGs: eradicate extreme poverty and hunger; achieve universal primary education; promote gender equality and empower women; reduce child mortality; improve maternal health; combat HIV/AIDS, malaria, and other diseases; ensure environmental sustainability; develop a global partnership for development. Goals one through seven are mutually reinforcing and are aimed at reducing poverty. The eighth goal, global partnership for development, is the means to achieve the first seven. Each goal has a set of targets and indicators designed as a "road map" for how to achieve the MDGs. The targets and indicators were drafted to measure the progress of each country on an international level.

The Millennium Development Goals are premised on six core values: freedom, equality; solidarity; tolerance; respect for nature; and shared responsibility. Each one can be traced to an economic, social, or cultural rights originally set forth in the Universal Declaration of Human Rights (arts. 22, 24, 25, 26) and later enumerated in a separate treaty, the International Covenant on Economic, Social and Cultural Rights. While achieving the MDGs will not mean that human rights are being universally respected, the international community generally agrees that the goals are a step in the right direction towards that end.<sup>11</sup>

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<sup>11</sup> Ibid

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**The United Nations Millennium Declaration, signed in September 2000, commits the states to:**

- 1. Eradicate extreme poverty and hunger**
    - Reduce by half the proportion of people living on less than one U.S. dollar a day.
    - Reduce by half the proportion of people who suffer from hunger.
    - Increase the amount of food for those who suffer from hunger.
  - 2. Achieve universal primary education**
    - Ensure that all boys and girls complete a full course of primary schooling.
    - Increased enrollment must be accompanied by efforts to ensure that all children remain in school and receive a high-quality education
  - 3. Promote gender equality and empower women**
    - Eliminate gender disparity in primary and secondary education preferably by 2005, and at all levels by 2015.
  - 4. Reduce child mortality**
    - Reduce the mortality rate among children under five by two thirds.
  - 5. Improve maternal health**
    - Reduce by three quarters the maternal mortality ratio.
  - 6. Combat HIV/AIDS, malaria, and other diseases**
    - Halt and begin to reverse the spread of HIV/AIDS.
    - Halt and begin to reverse the incidence of malaria and other major diseases.
  - 7. Ensure environmental sustainability**
    - Integrate the principles of sustainable development into country policies and programmes; reverse loss of environmental resources.
    - Reduce by half the proportion of people without sustainable access to safe drinking water (for more information see the entry on water supply).
    - Achieve significant improvement in lives of at least 100 million slum dwellers, by 2020.
  - 8. Develop a global partnership for development**
    - Develop further an open trading and financial system that is rule-based, predictable and non-discriminatory. Includes a commitment to good governance, development and poverty reduction—nationally and internationally.
    - Address the least developed countries' special needs. This includes tariff- and quota-free access for their exports; enhanced debt relief for heavily indebted poor countries; cancellation of official bilateral debt; and more generous official development
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assistance for countries committed to poverty reduction.

- Address the special needs of landlocked and small island developing States.
- Deal comprehensively with developing countries' debt problems through national and international measures to make debt sustainable in the long term.
- In cooperation with the developing countries, develop decent and productive work for youth.
- In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries.

## **What has been the progress in the achievement of the MDGs?**

Countries reaffirmed their commitment to the MDGs in March of 2002 at the International Conference on Financing for Development, held in Monterrey, Mexico. The Goals were again reaffirmed by the world community in September 2002 at the World Summit on Sustainable Development, held in Johannesburg, South Africa. World leaders of more developed countries also reaffirmed their commitment to increase financing for developing nations at the 2002 World Summit.

Global progress during the 1990s was very irregular across both regions and countries. Even within the same country, progress was inconsistent between different socio-economic groups. General consensus among the United Nations was that none of the MDG targets for the year 2000 were met on an international scale.

However, some progress has been made by individual countries, particularly those countries that have increased social spending and developed programs towards achieving the MDGs. Bolivia and Cameroon have increased spending on, and created national programs to improve, health and education. Education in Guinea and Malawi improved substantially, as did overall nutrition in Indonesia, Mexico and Tunisia. Likewise, HIV/AIDS decreased notably in Senegal, Thailand and Uganda, child mortality rates improved in Bangladesh and the Gambia, and the spread of polio decreased strikingly across the globe.

There have been significant setbacks as well. Mortality rates for children under the age of 5 increased in Cambodia, Kenya, Malawi, and Zambia. The primary school enrollment ratio dropped in Cameroon, Lesotho, Mozambique and Tanzania. The gender disparity in primary school, the target of Goal 4, increased

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in Eritrea, Ethiopia, and Namibia. Malnutrition increased in Burkina Faso and Yemen. Access to clean water substantially decreased across the globe; Bangladesh, for example, suffered a water poisoning problem. HIV/AIDS statistics increased at an unbelievably large rate, despite its decrease in certain isolated instances.

Some commentators criticize the Goals as too narrow. They point out that the MDGs focus only on economic, social and cultural rights, and not the corresponding civil and political rights. Even within economic, social, and cultural rights, critics say that the goals do not include targets for expanding people's participation in government, increasing employment opportunities, reproductive health care rights, and institutional governance reforms.

Some countries have objected to the vast influence that donors have over how countries approach the implementation of the MDGs. Many communities feel that local officials have been undermined by the agendas of donors and UN agencies instead of allowing communities to take their own approach to reaching the MDGs. Others criticize goal 8 for opening the way for conditionalities on trade liberalization, privatization and regulation.

Finally, some commentators believe that the MDGs will only be successful in open, participatory political cultures. These commentators recognize that the Goals must be supported by political will if they are to succeed. Both the people and governments, at both the national and local levels, must feel that the MDGs are their own goals, and not just those of the international community. Where people and local governments are included in the decision-making process the Goals will have a higher likelihood of success.

### **Have the rich countries delivered on their commitments?**

Almost all rich countries have repeatedly failed to deliver on their obligations with the amount of aid amounting to only around 0.2 to 0.4%.

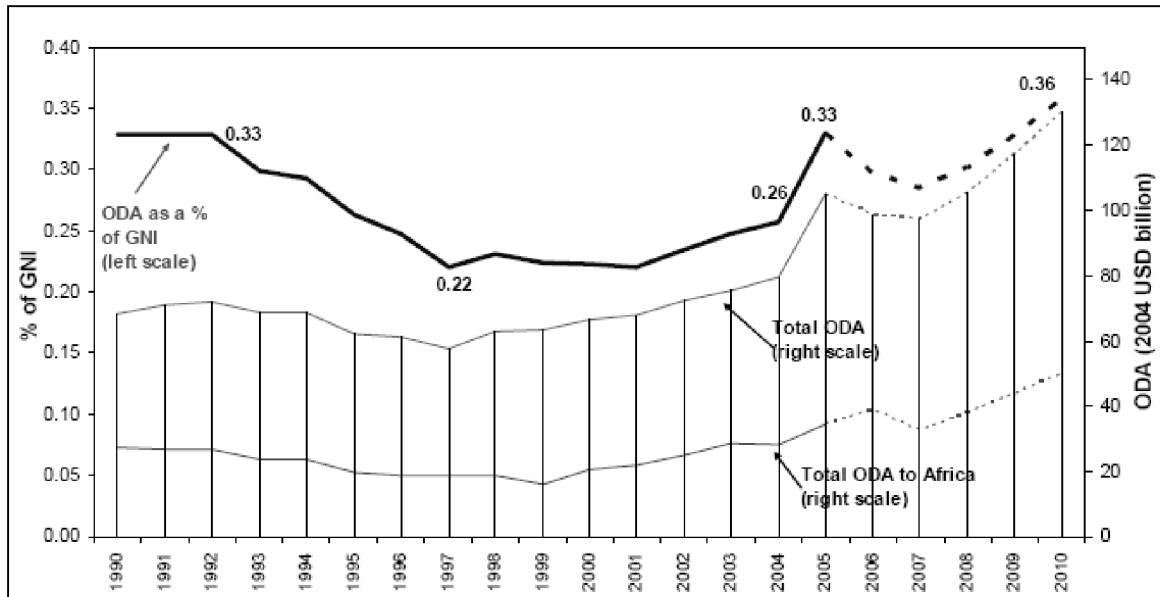
DAC donors provided a mere 0.26% of their GNI to ODA in 2004, up slightly from 0.25% in 2003. The 2004 performance of the G7 donors - the world's seven richest countries - was even worse at 0.22% of their combined GNI. Meanwhile, the average country effort for all DAC donors in 2004 was 0.42%, a little higher than 2003's 0.41 percent. Note that the average donor country effort has been

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sustained largely by five European donors that have consistently achieved or exceeded the UN target.

**DAC members' net ODA 1990-2005 and DAC Secretariat simulations of net ODA to 2006 and 2010**



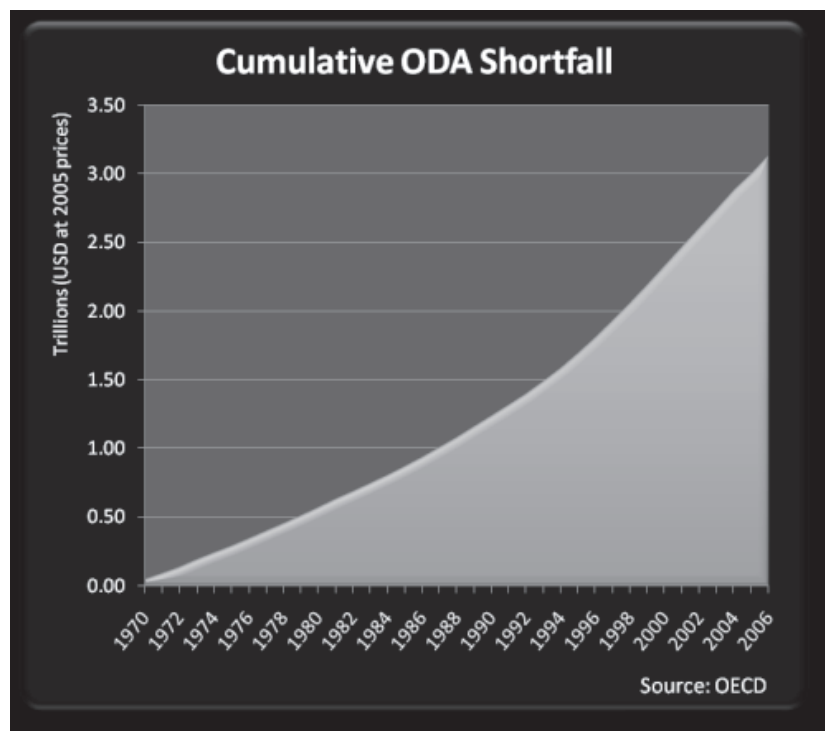
In December 2005, the UN General Assembly agreed that pledges “made at the 2002 Monterrey Consensus on Financing for Development would be reviewed in 2008. The Monterrey Consensus did not only launch new aid commitments by several donors (the European Union, the US, and Canada), but also committed UN member states to the Millennium Development Goals (MDGs). These goals aspire to bring greater poverty focus to ODA in efforts to halve the proportion of people living in absolute poverty and hunger as well as to achieve several social development goals by 2015.

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The years 2005 and 2006 are regarded as years of high aid volumes. However, at around 0.3% of GNI, if all DAC countries have given their full 0.7%, aid would have been \$250 billion higher (at 2005 prices).

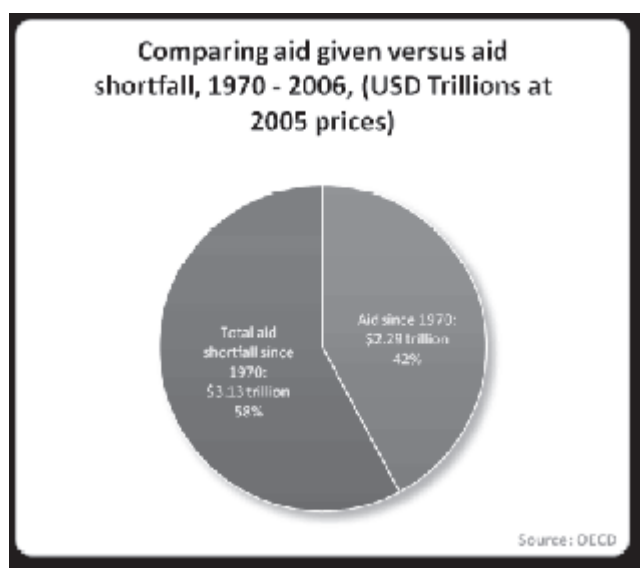
Considering the typical aid amount at around 0.25 to 0.4% of GNI for *over 30 years*, the total shortfall is a substantial and staggering amount: **over \$3.1 trillion aid shortfall at 2005 prices:**



In fact, the total ODA delivered so far has been less than half of the agreed targets. With total official foreign aid since 1970 (when the 0.7% target was set) being just under \$2.3 trillion, this amounts to less than one half of what has been promised.

Since the Monterrey Consensus, a number of donors have made long overdue commitments to the timetable to achieve the 0.7% target. In May 2005, the European Council decided on a new EU collective target of ODA to GNI ratio of 0.56% by 2010, which would result in an additional •20 billion a year in ODA. At the 8 July 2005 Gleneagles Summit of the G8, donors also agreed to

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increase aid to developing countries, which the OECD calculated would reach around \$50 billion per year by 2010. In September 2005, five donors stated their intent to reach 0.7% before 2015 while five European donors are planning to achieve 0.5% by 2010. Accepting these commitments at face value, the DAC

expected overall DAC ODA/GNI ratio to reach 0.36% in 2010, finally exceeding the ratios attained during the 1980s.

While recording these impressive promises, even the DAC Secretariat has registered caution about the will of donors to meet their own targets. As noted by the OECD, the projected “aid boom” in 2005-2006 is primarily due to debt relief for Iraq and Nigeria, and emergency aid to countries hit by the Indian Ocean tsunami in December 2004. By 2007, when the huge debt relief operations are already complete, donors need to increase other forms of aid by around 10% yearly, or double the rate of recent annual increases, to achieve the commitments they made in 2005. And while increased aid is welcome, a closer look indicates alarming trends in post 9/11 foreign aid flows.

The international community has set some modest targets in the MDGs to be achieved by 2015 as measured against performance in 1990. The MDGs are important steps which would indicate progress in meeting the international community’s commitments to economic, social and cultural rights. In the add-up to the September 2005 UN World Summit, the UN Millennium Project estimated the additional financing gap needed to achieve the MDGs to be \$46.6 billion for 2006, rising to \$73.5 billion by 2015.

Both UN agencies and international civil society organizations (CSOs) have issued ambitious calls for global finance that current commitments will certainly

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fall short of. Millennium Goal 8 calls on donors to commit to “more generous aid for countries committed to poverty reduction.” Like the other MDGs, if measured against the bench-mark of 1990, declining aid in the 1990s created a major financing gap that recent increases have so far failed to make up for.

According to the Human Development Report (HDR) 2005, while international aid is one of the most powerful weapons against poverty, it has been underused and badly targeted. “There is too little and too much of what is provided is weakly linked to human development,” the report said.

Since the Millennium Summit in 2000, donors have made available \$27 billion in new aid resources. But despite the commitment to “spare no effort” to reducing poverty, not all of this increase in aid has been available for poverty reduction goals. In part, this is due to massive aid resources targeting two countries Afghanistan and Iraq, which cornered 37% of new aid resources from 2000 to 2004. Based on *Reality of Aid* calculations, deducting new aid resources due to aid to Afghanistan and Iraq, debt cancellation, and support for refugees in donor countries, only 25% (or \$6.9 billion) of the \$27 billion in new aid resources from 2000 to 2004 were available for poverty reduction or MDG programs.

***Allocation of new donor aid resources, 2000-2004***

Indicator	\$ billion
Net new aid resources	27.0
Minus:	
New aid to Afghanistan & Iraq	10.0
Additional debt cancellation (net of average service)	9.6
Additional support for refugees in donor countries	0.5
New resources for potential use in poverty reduction/ MDG programs over four years	6.9

Source: Reality of Aid calculations based on DAC Development Cooperation Report 2005 and DAC online aid data (constant 2003 dollars). Aid, adjusted for inflation and exchange rates, in each year is compared to aid in the year 2000. Similarly deductions are compared to amounts provided in the year 2000. Debt cancellation is net of an estimated average 7.3% annual benefit from the debt cancelled.

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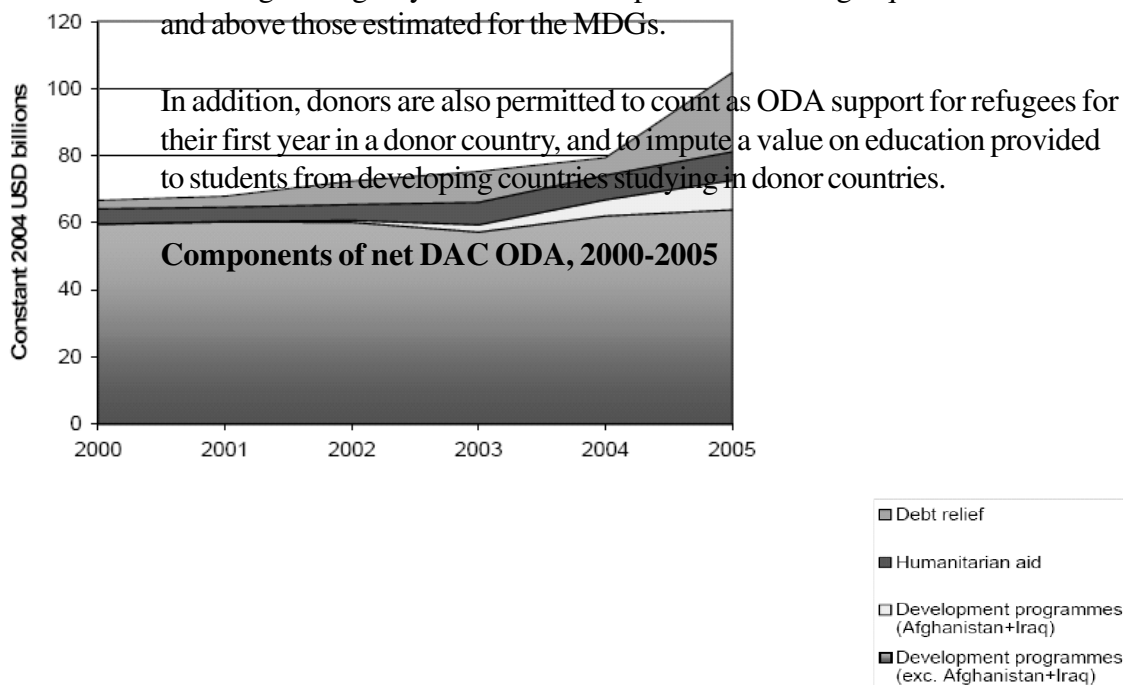
## How do donors inflate their ODA?

Donors have taken advantage of DAC criteria for what can be included in ODA to inflate their aid performance, while no actual benefits accrue to developing country partners. As the Human Development Report 2005 noted, not all of the money counted as aid translates into transfer of resources. This has dire implications on the problem of financing gaps to achieve the MDGs, since bridging the gap means real money must be disbursed and used. It pointed out the case of debt relief, technical cooperation, and emergency assistance, which together comprised 90% of the \$11.3-billion increase in bilateral aid between 2000 and 2004.

OECD reporting arrangements allow donors to report the entire stock of debt reduction as aid in the year it is written off, thus raising the real value of debt relief since the real financial savings to the recipient country come in the form of reduced debt servicing.

Technical cooperation, meanwhile, primarily employs experts from donor countries which may distort resource flows into priority areas for MDG financing. Emergency assistance is a response to financing requirements over and above those estimated for the MDGs.

In addition, donors are also permitted to count as ODA support for refugees for their first year in a donor country, and to impute a value on education provided to students from developing countries studying in donor countries.



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### III. DEVELOPMENT AND AID EFFECTIVENESS

ODA is the biggest pool of discretionary resources spent by many donor countries, which makes it vulnerable to appropriation for other purposes. The most obvious example is the extent to which the security dimension after 9/11 has become central in the development agenda. Security is a justification for ODA and vice versa, in the context of the squeeze on ODA funds.

Indeed development cooperation and assistance is hobbled not only by the severe shortfalls in committed aid outlined above but also by the myriad problems in aid relationships that stray from the principles of equality and mutuality in development cooperation. What is prevalent is that donor economic interests and short term foreign policy interests prevent effective management and delivery of aid according to the development priorities and programs of the developing countries. On the other hand, problems of capacity, transparency and accountability as well as human rights issues prevent effective development planning and implementation in recipient countries. Problems from these two sides of the aid relationship result on ineffective aid management and delivery, translating to ineffective development and poverty reduction programs.

Furthermore, conventional ODA criteria often do not apply in failing and fragile states. Perhaps most disturbingly, there is a sense of mutual “corruption” in the existing ODA system. Recipients do not have an empowered voice – they can’t say “no” – while donors have no incentive to tailor their efforts to meet local needs and sensitivities. Recipient and donor alike “enable” each other’s bad behaviour.

Despite the comprehensive objectives and humanitarian aspects of the MDGs, the motivations for providing ODA continue to rest on a number of strategic considerations and interests. Strategic considerations vary across countries and regions and are subject to changes over time, depending on particular political and economic climates that are both domestic and international in scope.

*Reality of Aid* has advanced the proposition that “aid should be treated as money held in trust for people in poverty” and the promotion of donor short-term foreign policy interests so common over the past three decades in the

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allocation of aid resources must give way to a mandate for ODA that focuses exclusively on poverty reduction and the rights of poor and vulnerable people. In the UN global conferences of the 1990s and in aid reforms promoted by some donors, the international community was beginning to grasp the importance of aid as a catalytic resource for poverty reduction.

Aid effectiveness has been a long term preoccupation of the development community and can be considered as old as ODA itself. There are three aspects or areas in the issue of aid effectiveness:

1. the political economic relationships surrounding aid partnerships. This refers to issues of selectivity of aid partners, the issues of 'special relationships' and the use of aid to leverage political, economic, military and other concessions from the recipient, the economic underpinnings of aid relationships such as debt, export credit agencies, and tied aid, and policy conditionalities
2. the administrative or aid management issues that further weaken ownership and leadership in the aid relationship such as concerns regarding lack of harmonization of donors, alignment to country priorities and systems, management for development results and accountability mechanisms
3. the issues of aid delivery and implementation relating to the politics of development and empowerment of the poor and stakeholders in country development.

### **Why is debt a central issue of development finance and the demand for debt cancellation preeminent in the broad issue of aid effectiveness?**

Debt has crippled many developing countries. Often based on loans taken out by prior rulers and dictators (many of which various Western nations put into power to suit their interests), millions face poorer and poorer living standards as precious resources are diverted to debt repayment.

The causes of debt are principally rooted in neocolonial structural issues:

- The legacy of colonialism — for example, the developing countries' debt is partly the result of the unjust transfer to them of the debts of the colonizing states, in billions of dollars, at very high interest rates.
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- Neocolonial patterns of trade and investment where low value added cheap agricultural and natural resource exports and high value manufactured imports plus profit remittances result in net outward foreign currency flows depleting foreign currency reserves and resulting in balance of payments deficits
  - Compounded interest on debts to cover BOP deficits and other financial gaps result in further deepening debt burden
  - *Odious* debt, whereby unjust debt is incurred as rich countries loaned dictators or other corrupt leaders when it was known that the money would be wasted in ill-planned or anti-people projects that were milking cows for corruption. South Africa, for example shortly after freedom from Apartheid had to pay debts incurred by the apartheid regime. In effect, South Africans are paying for their own oppression.
  - Mismanaged spending and lending by the West in the 1960s and 70s

Total debt continues to rise, despite ever-increasing payments, while aid is falling. For example, the developing world now spends \$13 on debt repayment for every \$1 it receives in grants. For the poorest countries (approximately 60), \$550 billion has been paid in both principal and interest over the last three decades, on \$540bn of loans, and yet there is still a \$523 billion dollar debt burden.

The Heavily Indebted Poor Countries (HIPC) initiative set up in 1996 by the rich nations through the IMF and World Bank calls for the reduction of external debt for the poorest countries through write-offs by official donors. It was set up for the poorest of nations whose debt was, on average, more than four times their annual export earnings, and 120 percent of GNP. Some have criticized the initiative as counterproductive in many cases because difficult and sometimes unfair conditions are associated with the initiative.

Time and again G8 summits have made promises of billions in debt-write off, but almost hardly are carried out, or these contain a lot of spin. For example, a lot of debt relief promised may include moneys previously announced for such purposes, thus creating an impression of enormous write-offs. Bilateral debt relief also does not typically release actual money to be used for other purposes such as poverty reduction.

The HIPC process is aimed not at canceling debts, but at ensuring that they can be repaid. It has little to do with enhancing human development, reducing poverty, or even increasing economic growth in the debtor countries. Rather, it

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is designed to massage debt figures down to a level where they would be deemed “sustainable” again according to the criteria of the International Monetary Fund (IMF).

The European Network on Debt and Development, for example, point out in a report that the HIPC is unlikely to free up resources to tackle poverty for three main reasons:

1. “Threshold levels to measure debt sustainability are arbitrary and still too high” and that “sustainability is defined in economic terms and not in terms of human and social development.” As a result, they point out, several least developed countries with significant debt burdens have not been included in the HIPC initiative.
2. The debt reduction on offer is too small. They point out, for example, that Zambia and Niger will actually pay more after the initiative than they did before.
3. The “piling up” of different sets of conditionalities slows down the process. Conditionalities such as the much-criticized Poverty Reduction Strategy Papers (PRSPs) from the IMF and World Bank “do not succeed in aligning macro-economic issues and poverty issues more closely than in the past and macro-economic frameworks haven’t changed significantly as a result of PRSPs.”

Jubilee Research has criticized the HIPC initiative, playing on the acronym, describing it as “Half-hearted, Inadequate, Piecemeal Cancellation” in a report that looks at the issue of corruption, debt, lending and borrowing.

The case of Zambia highlights well the situation for most recipients of this “relief”:

Zambia’s diligence in pursuing World Bank and IMF-led reforms has resulted in an increase in the poverty gap and the weakening of the country’s social services. Its debt burden has fundamentally undermined its efforts to tackle the HIV/AIDS crisis, and the numbers infected continue to rise above one million. Zambia has been forced to strain its resources to the limit in seeking to meet its huge debt service obligations. As Africa’s debt service obligations grow each year, and as Africa’s people are forced to repay these debts by mortgaging their health, their education and their future, it is time to acknowledge that the cancellation of Africa’s debts represents the only just solution.

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## Does aid go to countries that most need it?

Not necessarily. Instead of allocating their aid based on where it is most needed, rich countries often favor recipients that are of direct political or economic interest to them. As a result, the most impoverished people of the planet actually receive less aid than people living in middle-income countries.

For example, many European donors favor countries in former Yugoslavia, Europe's own restless backyard. In 2002–2003, ex-Yugoslav states ranked as number one recipient of aid from Austria, Germany, Greece, Switzerland, Norway and the European Union. Much of this aid is motivated by domestic political concerns, above all fears of uncontrolled immigration from crisis-stricken countries nearby.

Other European nations have favored their old colonies where European companies have a strong presence. In 2002–2003, Côte d'Ivoire and Cameroon ranked among top recipients of French development assistance; Timor-Leste, Cape Verde, Mozambique and Angola were biggest recipients of aid from Portugal; and Belgium sent most aid to the Democratic Republic of Congo.

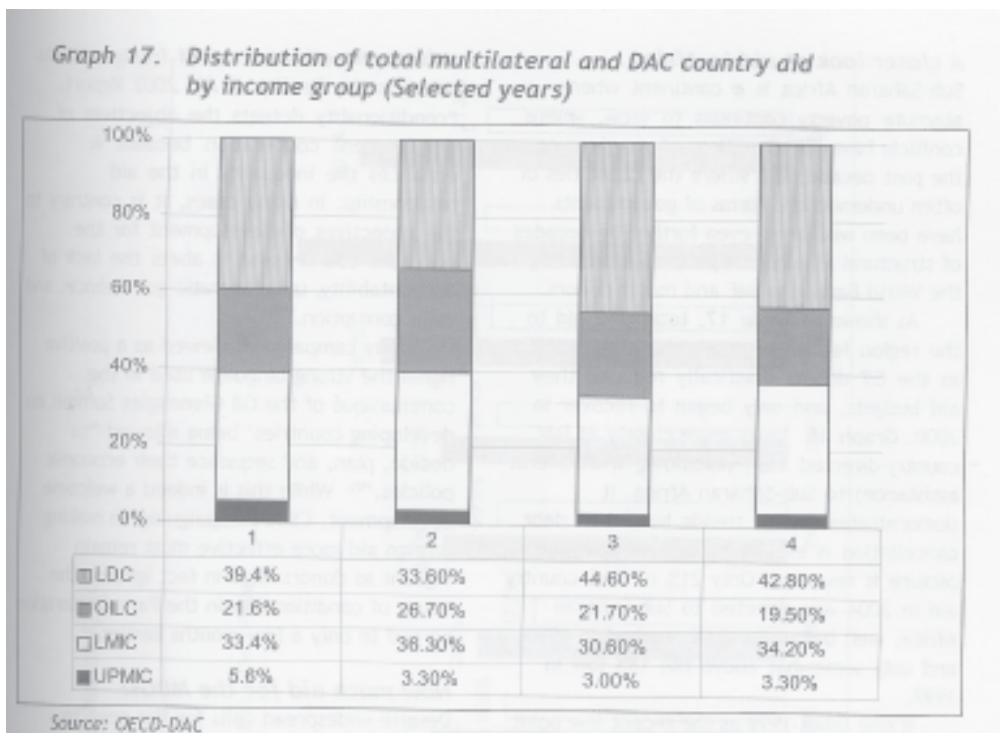
Israel and Egypt, both key US allies, has ranked as biggest recipients of US foreign aid. Together these two countries accounted for more than half of total US development assistance. Israel outranks such countries as Slovenia, Portugal and the Czech Republic in wealth, and is classified as a high-income economy by the World Bank. However, Israel received more development assistance per capita from DAC countries than some of the world's poorest nations like Burkina Faso, Guyana and Mozambique.

Allocating aid on the basis of geographical proximity, former colonial ties or for political interests rather than of actual needs of the poor countries have resulted in diminished aid for those who most desperately need it. Much of the aid is thus serving the interests of the donors instead of those of the recipients – the people aid is supposed to help.<sup>12</sup>

Due to pressure from civil society organizations, there has been an increasing focus in allocation of ODA to least developed countries (LDCs). This has been however been mainly the result of a shift from other low-income countries (OILCs) to LDCs.

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<sup>12</sup> — *Stingy Samaritans, Why Recent Increases in Development Aid Fail to Help the Poor*, By Pekka Hirvonen, Global Policy Forum, August 2005



## How is aid used as a tool of foreign policy?

The vast empirical literature dealing with the determinants of aid allocation clearly concludes that donors pursue political, economic and strategic interests in aid allocation, especially with regard to bilateral aid allocation of the larger donors, and that developmental or humanitarian concerns such as the reduction of poverty, receive a relatively low or even zero weight in this process.

Recent empirical work confirms that foreign policy goals of the donor continue to be the most important motive for giving aid. Many influential studies for example have shown that the United States targets more than one-third of its total assistance to Egypt and Israel for political reasons. These studies also show that many of the countries that receive the most aid per capita, such as Israel, Jordan, Egypt and Poland, do so because of their strategic importance.

The United States, Japan and European nations give aid based on important political and security motivations. “The direction of foreign aid is dictated as much by political and strategic considerations as by the economic needs and policy performance of the recipients,” notes a study by economists Alberto Alesina of Harvard University and David Dollar of the World Bank.

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Aid to the two nations (Israel and Egypt) has for many years amounted to about one-third of America's total foreign aid. "Israel shouldn't need aid," says foreign-aid expert John Sewell. "It's a rich country." But for domestic political reasons, plus the fact that Israel stands out as the only US-friendly democracy in the region, the US helps Israel out financially in its violent and costly struggle with the Palestinians. This spring, in the supplemental bill covering the cost of war with Iraq, Congress voted to give Israel an extra \$1 billion in military assistance and \$9 billion in new loan guarantees. That's on top of the annual \$2.7 billion already granted Israel.

In the 1980s, during the cold war, the four top recipients of American foreign aid in Africa were Somalia, Sudan, Zaire (now Congo), and Liberia. To a large degree the money was meant to bolster noncommunist regimes - no matter how awful - in the competition with the Soviet Union for world influence. Under the late President Mobutu Sese Seko, Zaire got nine loans from the World Bank - with US approval - despite an abysmal economic record...

The US offered Turkey as much as \$6 billion in foreign aid if it allowed allied troops to move into Iraq through its territory. Turkey may still get some aid for not moving its troops into the Kirkuk oil field. US aid to Pakistan, cut off in 1998 when Pakistan exploded an atomic bomb, was renewed when the country became a US ally in the fight against terrorism and Al Qaeda. In the case of North Korea, the US and South Korea are struggling with a predicament: Should they provide food aid to help ward off hunger in the North on a humanitarian basis or hold up help to engage or punish Pyongyang for its pursuit of nuclear weapons?

— *For Rich, Foreign Aid Is a Tool of Persuasion*, By David R. Francis, *Christian Science Monitor*  
June 26, 2003

A very disturbing development is the trend towards the stress on the security interests of donor countries in their aid policy. The war on poverty which had taken the center stage in development discourse in recent years under the framework of the MDGs is in danger of being pushed aside by the new preoccupation on the "war on terror".

In October 2003, the DAC of the OECD released a controversial policy statement, endorsed at the highest level by OECD aid ministers, on development cooperation and the prevention of terrorism. This policy asserts that "development cooperation...[has] an important role to play in helping to deprive terrorists of popular support and addressing the conditions that terrorist leaders feed on and exploit". Amidst the profound crises of poverty, gross inequality and social conflict in Asia, Latin America, the Middle East and Africa, the lens through which donors now wish to assess their priorities appears to be their own security interests and the "war on terrorism".

In recent years, the United States and its allies have unilaterally committed hundreds of billions of dollars to destructive wars and "reconstruction" efforts in Afghanistan and Iraq. In the name of a 'whole-of-government' approach to

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global security, some donors are seeking to 'expand' the criteria for ODA as they merge military, political and humanitarian responses to countries experiencing protracted crises, in the name of the 'war on terror'.

## **What is tied aid?**

Tied aid mandates developing countries to buy products only from donor countries as a condition for development assistance. According to a UN study, donor money that comes with strings attached cuts the value of aid to recipient countries 25-40 percent, because it obliges them to purchase uncompetitively priced imports from the richer nations.

The United States, Germany, Japan and France insist that a major proportion of their aid money be used to buy products originating only in their countries.

“This has ensured that aid money is eventually ploughed back into the economies of donor nations,” says Njoki Njoroge Njehu, director of 50 Years is Enough, a coalition of over 200 grassroots non-governmental organizations. “The United States makes sure that 80 cents in every aid dollar is returned to the home country.”<sup>13</sup>

Njehu cited the example of Eritrea, which discovered it would be cheaper to build its network of railways with local expertise and resources rather than be forced to spend aid money on foreign consultants, experts, architects and engineers imposed on the country as a condition of development assistance. Strings attached to U.S. aid for similar projects, she added, include the obligation to buy products such as Caterpillar and John Deere tractors. “All this adds up to the cost of the project.”<sup>14</sup>

Another example of tied aid is the money being doled out to Africa to fight HIV/AIDS. The US government is insisting that the continent's governments purchase anti-AIDS drugs from the United States instead of buying cheaper generic products from South Africa, India or Brazil. As a result, U.S. brand name drugs are costing up to 15,000 dollars a year compared with 350 dollars annually for generics.<sup>15</sup>

Food aid is yet another example of tied aid. In the US, which is the largest supplier of food aid, national law requires that commodities be produced in the US and shipped via US-owned ships or aircraft.

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<sup>13</sup> *Development: Tied Aid Strangling Nations, Says UN, By Thalif Deen, Inter Press Service, July 6, 2004*

<sup>14</sup> *Ibid*

<sup>15</sup> *Ibid*

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Tied food aid, according to the OECD, increases costs by as much as 50 per cent over locally purchased goods, reduces market incentives to expand production in the affected area, slows arrival times and runs the risk of destroying rural economies by flooding recipient countries with free food. Almost all US food aid is provided as commodities, as was much of the more than 5 mn tonnes of food distributed by World Food Program in 2004.<sup>16</sup>

The Bush administration has pledged \$350 million to tsunami relief. It's a safe bet that at least \$248 million of that money will be spent right here in the U.S. The U.S. government places conditions on its foreign aid that require most relief and development assistance materials and services to be purchased from U.S. companies and agencies. The last time the government revealed any data on this issue—back in 1996—72 cents out of every U.S. foreign aid dollar was spent on U.S. goods and services...

Requiring that foreign aid benefit U.S. companies often means that precious resources are used buying more expensive goods or services; while valuable time is wasted transporting these goods to the region. This hurts poor countries, including those devastated by this disaster of monumental proportions.

Countries that receive aid also have less control and decision-making on how to spend aid money. For example, countries like Malaysia or Sri Lanka, where the staple diet is rice may get shiploads of sorghum, or wheat, because these items are available from U.S. company stockpiles. What's worse, goods like sugar or roofing sheets that may have been secured in the region, injecting much-needed vigor into the regional economy, are ignored as U.S. materials are imported at top dollar...

Adding insult to injury, the U.S. and other rich nations agreed that by January 1, 2002 they would cut the strings and untie aid to least developed countries. This Agreement, the Development Assistance Community (DAC) Recommendation to Untie Official Development Assistance to Least Developed Countries, was finally reached after 30 years of negotiations and was an acknowledgment that tied aid "represents poor value for money and undermines development assistance."

However, three years later, the U.S. government may well be the worst offender. Despite having signed international agreements and commitments on lifting this kind of restriction on foreign aid, the Bush administration maintains doggedly intransigent. The Bush administration hasn't even bothered to provide any data about the issue. The latest available figures reported are from 1996, when Bill Clinton was president.

At that time, the U.S. estimated that 71.6 percent of bilateral aid commitments were tied to the purchase of U.S. goods and services.

—*Aid That Doesn't Deliver*, By Emira Woods\*, [\*Foreign Policy in Focus\*](#), February 1, 2005

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<sup>16</sup> UN, *Relief Groups Seek to Bolster and Speed Up Food Delivery*, By Michael Fleshman, *Africa Renewal*, January 2006

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Tying aid promotes goods and services from the donor country and undermines the humanitarian purpose and the overall effectiveness of assistance. It results often in inappropriate aid, which does not meet the needs of the poor. By allowing greater competition for the provision of services, a recipient country can benefit from buying from suppliers that compete on price, quality, and service. Untying aid can also help strengthen the local and regional economies and contribute to building local productivity.<sup>17</sup>

In times of disasters, there are ample supplies of local expertise—carpenters, building contractors, management consultants, architects, surveyors—and many of these skilled workers are unemployed. Restoring human dignity to those affected by a disaster will mean giving them the opportunity to earn a living and feed their families. This cannot happen if foreign companies, agencies, and contractors crowd out locals because of the practice of tied aid.<sup>18</sup>

## **What is conditionality?**

Conditionality may be defined as the application of specific, predetermined requirements that directly or indirectly enter into a donor's decision to approve or continue to finance a loan or grant.

Conditionality takes a number of different forms. Yet the underlying principle remains the same: donors are using financial pressure to leverage actions they believe would not otherwise be taken.

Conditions are spelled out in a range of documents, including Poverty Reduction Strategy Papers (PRSPs) which countries must produce every three years in order to qualify both for concessional lending from the World Bank and IMF and for debt relief under the Heavily Indebted Poor Countries (HIPC) initiative. They are also included in the Letters of Intent and Letters of Development Policy which present a country's economic reform intentions to the IMF and World Bank respectively.

Conditions form a key element in the individual lending strategies produced by the World Bank and IMF. Both the World Bank's Poverty Reduction Support Credit (PRSC) and the IMF's Poverty Reduction and Growth Facility (PRGF) are supposed to be based on policies identified in a country's PRSP, yet they often include conditions that have not been agreed through the PRSP process. Conditions are also found in the World Bank Country Assistance Strategy (CAS) – 'a master plan' for each of the countries in which it works.

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<sup>17</sup> From Aid That Doesn't Deliver, By Emira Woods\*, *Foreign Policy in Focus*, February 1, 2005

<sup>18</sup> Ibid

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The IMF combines fiscal policy conditions that relate to a country's macroeconomic and fiscal situation (for example, inflation targets, and budget deficit targets that countries must observe in order to get aid money) with other policy conditions. With the World Bank, conditionalities often cover structural adjustment prescriptions that relate to more detailed institutional reforms, often in the public sector, such as privatization, trade liberalization and civil service reform.

Conditionalities fall under three main categories:

**1. Prior actions** – that must be taken by the government before any IFI lending, to demonstrate commitment to a reform programme. These are the strongest conditions, used most heavily where donors doubt the reform credentials of the government.

**2. Performance criteria, or 'trigger' conditions** – these are periodic conditions that must be met over the course of a programme in order to release a further tranche of money. A country's credit limit with the World Bank is varied according to how well they meet the performance criteria – there are high, medium and low case lending scenarios, dependent on how well a country meets performance criteria.

**3. Structural benchmarks** – that are monitored to ensure that a programme is 'on-track'. They describe the contents and results of the government's program in areas monitored by the World Bank, or small steps in a critical reform process, that would not individually warrant an interruption of funding. Whereas the World Bank argues that these are only indicators of the direction of performance, NGOs argue that they are in effect conditions since they may enter into a general evaluation of country performance.

Conditionality as we know it today originated with the IMF, and had initially a relatively specific macroeconomic focus. It was intended to substitute for collateral, normally pledged by commercial banks in terms of an asset (a house or a piece of land) to be handed over if the borrower failed to pay back a loan. In the IFIs (IMF and World Bank), conditionalities were originally related to project lending and they were meant to ensure that the funds were used as intended. With the introduction of policy based lending in the 1980s, the purpose changed to enable the borrower to remove what the lender regarded as fundamental policy-induced obstacles to economic growth and development.

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In terms of purpose, one may distinguish between the following different forms of conditionality:

- *Fiduciary conditionality*: This relates to the financial management of funds and to public accountability in relation to those funds. The purpose of this form of conditionality is to ensure that the funds are used for the purpose intended and that the funds are used in the most efficient manner. Hence, this is an element of regular financial accountability. These fall within the normal contractual terms and conditions.
- *Policy conditionality/economic policy conditionality*: This includes conditions about the implementation of policies believed to be of importance in reaching general development goals. Funding is not necessarily directed towards the areas of policy conditionality which oftentimes are only peripherally related to the program in question and limit the partners' policy space or freedom.

The case Zambia illustrates how the IFIs, mainly the IMF, put pressure on the government of Zambia to introduce policies of privatization and liberalization through the use of conditionalities. The IFIs first used conditionalities to pressure for the privatization of the Zambia Consolidated Copper Mines Limited (ZCCM) in the late 1990s. Later, they used the Poverty Reduction and Growth Facility (PRGF) to pressure for the privatization of the Zambia National Commercial Bank (ZNCB) and the Zambia Energy Supply Company (ZESCO). The privatization of ZNCB and ZESCO had been a condition in the 1999 ESAF and the failure to implement it was one of two major reasons why the IMF rejected to enter into a PRGF with Zambia when the ESAF expired in 2003 and rather approved a Staff Monitored Program. In 2004 the IMF granted a PRGF to run from 2004-2007. By this time, Zambia had elaborated a PRSP that had been endorsed by the World Bank and the IMF, and it had been accepted for the HIPC initiative.

Among the HIPC completion point triggers were the privatization of the ZNCB and the commercialization of ZESCO. The formulation "commercialization" was based on an agreement reached in 2003 between the Government, IDA and the IMF that the objectives of restructuring and privatization as originally envisaged could be pursued by the commercialization of the company instead of privatization. This was as a result of the Government resistance to privatizing the utility company. Under the commercialization option, the Government would retain its ownership of ZESCO while allowing it to operate purely on commercial basis without state interference. Also in the PRGF agreed in 2004, privatization of ZNCB and commercialization of ZESCO were conditions.

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- *Process conditionality*: This focuses on the process of planning, adopting and/or implementing policies rather than their content or the management of funds. Generally it involves that certain institutions are in place or certain principles for participation are followed to enhance transparency and representativeness of governance.

The Vietnamese Government drew up a comprehensive strategy in May 2002 that sought to reduce poverty and encourage growth. This reform package was agreed by the government following a year-long consultation process that canvassed a broad range of views, including those of local officials.

Donor organizations offered their technical support to this process and were consulted on its progress. The end result was a strategy that was widely supported by the international community, but which was developed entirely by the Vietnamese Government.

- *Outcome conditionality*: This focuses on measurable outcomes (e.g., GDP growth, poverty reduction) rather than what kinds of policies are implemented to reach those goals. This form of conditionality is central to the concepts of results orientation in aid and output-based aid.

The UK and Ethiopian Governments have drawn up a 10-year agreement that aims to link action on reducing poverty with progress on key issues such as justice, human rights and enhancing democracy. The initiative seeks to build a stronger partnership between the two governments by setting out their mutual commitments and expectations.

As part of the arrangement, there will be regular dialogue between the two sides, making the future actions of each government easier to predict. As a result, the Ethiopian Government should be able more accurately to predict future aid, and the UK should have more confidence in the outcome of aid, to the ultimate benefit of the poor.

The World Bank and IMF tend to apply a specific and restricted definition of conditionality using technical terms, for example as: “the specific conditions attached to the disbursement of policy-based lending or budget support.”

In popular use, the term conditionality is often given a much broader definition and has become closely associated with the attempt of the IFIs to impose policies, e.g. of privatization and liberalization, on poor countries. Many of the critics of the IFIs include a broad set of monitoring and review mechanisms in the term conditionality, although not all of these formally or automatically affect the decision to approve or disburse a grant or a loan or part of a loan.

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## **What are some of the critiques against the practice of conditionality?**

In 2005 donor governments committed to significant increases in the volume and quality of development aid. A large amount of this is likely to be delivered by the World Bank and the IMF, which are also very influential in the spending allocations of other agencies. However, economic policy conditionality imposed by the World Bank and the IMF on developing countries has harmed development in some of the poorest countries and remains a key challenge if aid effectiveness is to be taken seriously.

When external agencies impose detailed conditions on the finance they provide for developing countries this has a series of unfortunate effects. It limits the policy space available for developing countries to determine their own policies for poverty reduction, and undermines domestic citizens' rights in decision making processes and national sovereignty. It can delay poor countries from receiving much-needed resources. It can increase aid unpredictability as resources may suddenly stop flowing if conditions are not met. It imposes a significant administrative burden on already over-stretched developing governments.

There is a growing body of evidence – both official and independent – showing that conditionality has failed. The Bank's 2005 review of conditionality agreed to the principles of ownership, harmonization, customization, criticality, transparency and predictability. Unfortunately, there is little evidence that the Bank is doing nearly enough to change its practice. The Bank claims a reduction of conditionality; however, this is owed, to a great extent, to the fact that interventions that CSOs consider conditionalities are not labeled as such by the Bank enabling official statistics to appear more positive than it is the reality.

Recent research conducted by CSOs has found that:

- Aggregate World Bank and IMF economic policy conditions rose on average from 48 to 67 per loan between 2002 and 2005;
  - World Bank and IMF continue to put conditions on privatization and liberalization despite the acknowledged frequent failures of these policies in the past;
  - The Bank does not give enough space for governments to define their own policies;
  - The continuing secrecy of World Bank and IMF negotiations with borrowing country governments inhibits the development of genuine
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broad based “ownership” and leaves reform programmes open to the accusation that they have been illegitimately forced on governments by the Bank;

- IMF macroeconomic conditions, especially high interest rates aimed at combating moderate levels of inflation and stringent fiscal policies, impair much needed spending on social and economic development.

Northern countries are collectively the major contributors to the World Bank’s concessional arm, the International Development Association (IDA); they also have an important presence on the World Bank and IMF Boards.

CSOs have been urging governments in the North and the South to show a resolute political commitment to:

- Ensuring the World Bank and the IMF adopt a policy which prevents them from imposing any form of policy conditions on poor countries when providing finance and debt relief;
- Phase out policy conditionality in WB and IMF lending practice;
- Creating forums for equitable policy dialogue between northern and southern governments based on common commitments to international human rights law and other international agreements and its implications for the goals and modalities of international cooperation and aid.

No matter the objectives by which conditionality is utilized nor how good intentioned its prescriptions are, conditionality severely erodes the sovereignty of partner countries and prevents governments from properly responding to the concerns of its citizens or to respect, promote and defend their human rights. A human rights conditionality, for example, is an oxymoron as a superior, external imposition to a government to consider its human rights obligations to its citizens to be superior.

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## IV. EFFECTIVE AID MANAGEMENT

### What is the Paris Declaration?

The Paris Declaration of March 2005 is the latest major international statement on aid effectiveness. It represents a landmark achievement that brings together a number of key principles and commitments in a coherent way. It also includes a framework for mutual accountability, and identifies a number of indicators for tracking progress.

On March 2, 2005, development officials and ministers from ninety one countries, twenty six donor organizations and representatives of civil society organizations and the private sector attending the Paris High Level Forum issued the “Paris Declaration on Aid Effectiveness,” in which they committed their institutions and countries to continuing and increasing efforts in harmonization, alignment, and managing for results, and listed a set of monitorable actions and indicators to accelerate progress in these areas.

The Declaration marks a significant set of donor

### What is the Paris Declaration on Aid Effectiveness?

The PD on Aid Effectiveness, agreed to in March 2005, establishes global commitments for donor and partner countries to support more effective aid in a context of significant scaling up of aid. The intention is to reform the delivery and management of aid in order to improve its effectiveness. The reforms are intended to “increase the impact of aid [...] in reducing poverty and inequality, increasing growth, building capacity and accelerating the achievement of the MDGs”. The ‘Paris Declaration’ outlines five principles to be monitored in terms of how aid should be delivered namely,

**OWNERSHIP:** Developing countries will exercise effective leadership over their development policies, strategies, and to coordinate development actions;

**ALIGNMENT:** Donor countries will base their overall support on receiving countries’ national development strategies, institutions, and procedures;

**HARMONIZATION:** Donor countries will work so that their actions are more harmonized, transparent, and collectively effective;

**MANAGING FOR RESULTS:** All countries will manage resources and improve decision-making for results; and,

**MUTUAL ACCOUNTABILITY:** Donor and developing countries pledge that they will be mutually accountable for development results.

The PD specifies indicators, timetables and targets for actions by donor and partner governments and has an evolving agenda for implementation and monitoring of progress, up to 2010.

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commitments to improve the effectiveness of aid for the purpose of accelerating the achievement of the 2015 Millennium Development Goals and reducing poverty and inequality. CSOs have welcomed the Declaration's intention to put donor and partner country words into action through specific reforms to which they will be accountable.

The Declaration clearly acknowledges the primary importance of "country ownership", with effective developing country leadership over their development policies. Developing country partners agree to work out their own national development strategies to which donors will respond. To achieve these overarching goals, the Declaration sets very specific objectives, with measurable indicators, including greater alignment with partner country strategies, improved harmonization of donor procedures, and a commitment to mutual accountability for development results.

The Paris Declaration is founded on the notion that "partnership" has now replaced the traditional donor/recipient relationship. In the declaration, donors and aid recipients make a total of 56 specific "partnership commitments" across the five areas of ownership, alignment, harmonization, managing for results and mutual accountability.

## **The five principles recognized in the Paris Declaration**

### **1. Ownership**

#### **What is meant by ownership?**

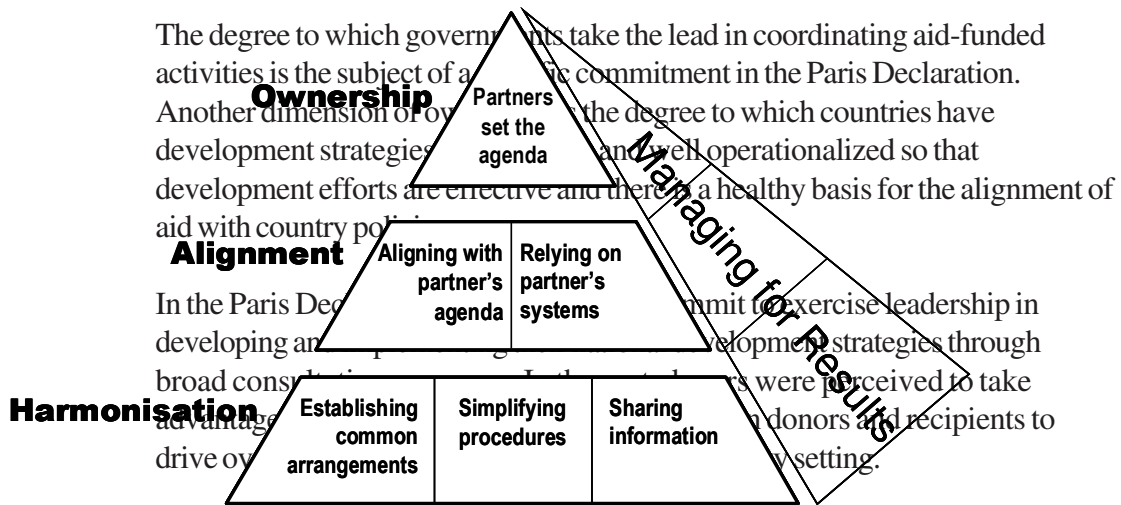
Developing countries are supposed to exercise leadership over their development policies even when those policies rely in part on external aid money. The *Paris Declaration* underlines that donors must respect countries' choices of policies, and assist them to strengthen their capacity to implement those policies.

Ownership is the first of the five thematic headings of the Paris Declaration – the apex of a conceptual pyramid whose other building blocks are aid alignment, aid harmonization, managing for results and mutual accountability. It comes first because experience shows that aid is most effective when it supports countries' own development efforts and policies to which leaders, officials and citizens of the country are truly committed. It is less effective where the policies are donor-driven.

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The state of affairs visualized by the Paris Declaration is one in which partner countries exercise effective leadership over their development policies and strategies, and co-ordinate the efforts of development actors working in the national territory.



There are gaps and problems in the implementation of this principle. Partners may not have prioritised and sequenced development strategies needed for implementation.

Some questions for donors: Have donors really “stepped back” and partner countries taken leadership? Who are the driving forces in preparing Donors’

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“country assistance strategies” and what are the processes? How and by whom are donors’ priorities set? How are “Joint Assistance Strategies” prepared?

Some questions for partners. Does the country have an overall country strategy including strategies for key sectors with clear strategic priorities? Do the country and sector strategies have specific targets serving the overall development strategy and are the targets sequenced? What has been the process of preparing the overall country strategy and the strategies for key sectors?

Another problem this is supposed to solve is: Partner priorities are not respected. Donor policy priorities distort partner country priority setting and policy development.

Questions to donors. To which degree and how do they attempt to ensure that donor priorities are taken into consideration in overall partner country strategies? To which degree do they have flexibility to compromise on their priorities?

Questions to partners: Has the partner country taken leadership in setting priorities at the national and sector levels? How and to what extent do you accommodate donor priorities in partner country development strategies? What has been the process of priority setting, i.e. to what extent is the overall strategy the result of sector priorities (which might have been influenced by donors)? Which new ideas have been included in the overall and sector strategies and how were these internalised and negotiated? Did the partner country take the lead in this process?

Another problem it wishes to solve: Partners have not been efficient in steering the implementation of development strategies and policies.

But partner countries do not have sufficient competence and capacity. The unequal power relations between partners and donors influence the extent and quality of ownership.

Another problem is insufficient involvement of civil society and private sector in consultation process.

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## **What are some CSO criticisms of the Paris Declaration on the question of ownership?**

The PRSP is presumed to be the expression of “ownership” by partner countries of their development strategies. In reality, the PRSP process remains very broadly controlled by the IFIs.

The World Bank and the IMF advisors are ultimately entrusted with approving the PRSPs. Thus the governments of the recipient countries adopt strategies which they know are liable to receive the agreement of the World Bank and IMF consultants. More often than not, governmental involvement is limited to high ranking civil servants from the finance ministries, the PRSF secretariat and the central Bank responsible for preparing the PRSPs with the experts sent by the IFIs. Civil society is involved in the preparation of public policies to a very limited extent.

As a general rule, far from favouring the emergence of autonomous official policies in the economic and social fields, the PRSPs have an economic content mainly determined by the Poverty Reduction and Growth Facility (PRGF), a new IMF economic conditionality framework (targeting macroeconomic stability, privatizations, freeing-up trade and reducing aid-dependence at the expense of the redistribution and reduction of inequality.

The preparation and the “ownership” of the PRSPs are also means through which the power of donors, and the first ranking among them, the IFIs, is wielded. The initiatives aiming to group resources together in approaches/ programmes and improve the harmonization of donors’ policies and practices in the perspective of underpinning the PRSPs are key instruments enabling donors to have considerable control over the development process of aid recipient countries. In the majority of cases, the conditionalities remain highly important, whether they concern sectoral approaches or budgetary aid. These conditions imposed by the weight of the donor coordination, go beyond usual macroeconomic policies, crossing over into the realm of governance and threatening to undermine the already limited autonomy and benefits of the PRSPs.

The omnipresent influence of the IMF and the World Bank on donor policies, through the intermediary of the budgetary support for the PRSPs (and sometimes for the sectoral approaches), is clearly obvious in the preparation of the indicators. These institutions define, to a large extent, for the other donors

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the conceptualization, analysis and the “certification” of what can be considered as a good choice in terms of development policy.

This prescribing power is all the more significant as it is based on a three-fold philosophy, located at the heart of the donors attempts to improve aid effectiveness and which represents *de facto* new ways of imposing economic conditionalities. Firstly, this concerns the notion of “good governance” which, both reduces the dimension of governance to good management of public affairs and the application of “good economic policies” and at the same time, enables the IFIs to interfere in national policies to a great extent. Consequently, in the field of health, the policies encouraged by the IFIs namely privatizing health care and putting in place cost recovery policies via pricing lead to a situation of exclusion which has devastating effect on the poorest of the poor and thus the most at risk.

The *Paris Declaration* contains no targets or indicators relating to a reduction of conditionality or benchmark triggers for the release of donor funds. Donors often undermine democratic accountability through secret policy dialogue with developing country government officials on aid and debt conditions, in which their citizens are largely unaware and have no role.<sup>19</sup>

The use of aid as a policy tool to *impose* economic policy and other conditions has no place in an aid paradigm rooted in a commitment to local ownership. Donors should establish monitorable targets in the review of the Paris Declaration in 2008 for reducing, and then eliminating, policy conditions and similar benchmarks in their aid relationships.<sup>20</sup>

The *Paris Declaration* asserts that “in determining the most effective modalities of aid delivery, [donors] will be guided by development strategies and priorities established by partner countries”. Donor rhetoric on the importance of “local ownership” of development policies and priorities, unfortunately, remains in tension with the dozens of conditions and “undertakings” that these same donors attach to their aid programs. The *Declaration* contains no targets or indicators relating to a reduction of conditionalities and benchmark triggers for the release of donor funds. In Paris at the High Level Forum, CSOs called for annual reports on donor progress in reducing conditionalities and trigger benchmarks, but to no avail.

The *Paris Declaration* discourse on aid effectiveness has not materialized in a vacuum. It must be stated that the *Declaration* is rooted, in part, in the widely acknowledged failure of aid conditionality associated with Structural Adjustment

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<sup>19</sup> Brian Tomlinson, Canadian Council for International Cooperation, May 2006

<sup>20</sup> Ibid

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Programs (SAPs) in the 1990s. But despite the growing agreement on the failure of aid conditionality in the past, the macro-economic policies associated with SAPs remain a strong consensus among the major bilateral donors, the World Bank and the IMF. Many of these same conditions have re-emerged for debt cancellation and PRSPs as well as in coordinated donor program-based approaches (Budget Support and Sector Wide Approaches) with developing country governments. PRSPs and “program-based approaches are strongly promoted in the *Paris Declaration*, with little critical reflection on the policy prescriptions that often accompany them.<sup>21</sup>

In fact, the numbers and scope of donor- imposed conditions and undertaking are expanding. For instance, governance conditions now reach deep into the details of the political and administrative processes of government in developing countries. Such governance conditions now make up a significant proportion of multilateral and bilateral aid conditions, despite having little demonstrated capacity to improve democratic governance. One study counted 82 governance-related conditions out of an average total of 114 conditions for each IMF /Bank agreement in Sub-Saharan Africa. Some CSOs argue that donors are no longer “external actors” in the poorest countries, but rather are closely integrated through aid conditionalities into the functioning of the state itself.

### **The IMF and Conditionalities: The Example of Zambia**

Although the PRGF (Poverty Reduction growth Facility) differs from the earlier ESAF, most notably in the extent to which conditionality has been streamlined in countries such as Zambia this statement is not obviously true. Zambia has experienced enormous problems with “Ensuring appropriate flexibility in fiscal policies” forcing the Fund to maintain a tight fiscal control. In Zambia long struggles with expenditure control and structural problems, especially privatization issues, led the Fund to revert back to ESAF fiscal controls. In such cases social spending remains a challenge. In cases where problems of expenditure control plague macroeconomic policy, the Fund finds it easy to crack the old whip of conditionality. Furthermore, the devil is in the details.

Apart from the fact that in the early 1990s to mid 1990s Zambia undertook far reaching market-oriented reforms: prices were liberalized, interest rates were decontrolled, the currency was allowed to float, and exchange controls on current and capital accounts transactions were removed. Even under the PRGF, further calls have been made to privatise Zambia’s state electricity company (ZESCO) and state bank (ZNCB), but government has since backtracked after large-scale public resistance. It has been observed that although countries have been allowed flexibility in terms of PRGF programs, the fundamentals are the same. The philosophy behind all IMF lending has not changed over the years. In fact what may appear, as flexibility may be a change of strategy whereby if IMF does not demand for it, the World Bank does.

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<sup>21</sup> Ibid

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The IMF's harsh conditions continue to curtail efforts to improve the quality of school education. While government initiatives to get more children into school by introducing free basic education were paying off, IMF policies, which severely restricted the recruitment of teachers, threatened to undo many of the gains achieved in recent years. In 1999 and 2001 the IMF under the ESAF and PRGF arrangements, prescribed for the Zambian Government the privatisation of state enterprises, liberalisation of the strategic grain reserves and liberalisation and privatisation of the energy sector particularly the Zambia National Oil Company (ZNOC). These reforms have come with huge economic and social and costs to the Zambian people, reflected in high levels of unemployment and poverty due to collapsed companies occasioned by trade liberalisation, privatisation and stiff competition from foreign firms. Many foreign firms enjoy export subsidies from their governments and thus have been able to dump or sell their products cheaply in Zambia thus wiping out the Zambian competitors. This is a recipe for local de-industrialisation and ultimately frustrates MDG efforts to reduce poverty in Zambia.

— *Assessing the Impact of the Poverty Reduction and Growth Facility on Social Services The Case of Zambia*, AFRODAD, 2006

Democratic governance is essential to allow citizens to hold their governments accountable, but it cannot be imposed from the outside. Donors often undermine democratic accountability through policy dialogue with developing country government officials on aid and debt conditions, in which their citizens are largely unaware and without a role. This secrecy undermines democratic governance by hiding the trail of how policy changes are made. Donor-led policy dialogue for sector programs in education or health and budget support, with an exclusive focus on state officials, may further undermine democratic process in important social and economic sectors critical to the interests of poor people. The *Paris Declaration* calls for two thirds of donor bilateral programs to be organized through such program-based approaches by 2010.

The *Paris Declaration* affirms that donor/recipient partnerships must “enhance donors and partner countries’ respective accountability to their citizens and parliaments for their development policies, strategies and performance”. But this stated intent is largely ignored in the 12 areas for aid reform and the monitoring of indicators.

There is no single path for achieving country ownership of development strategies for reducing poverty. Donors need to see these strategies as inherently conflictual and to be sensitive to complexity and contingency if they truly seek country-specific

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development results for poverty reduction goals. This approach implies that aid modalities should continue to support diverse development actors, including southern CSOs.

The use of aid as a policy tool to impose economic policy and other conditions has no place in an aid paradigm rooted in a commitment to local ownership. This basic principle is now recognized by the UK government in its 2005 policy statement on conditionality. The CSO call for a cessation of imposed conditions for aid does not imply that there should be no policy discussions or contractual terms for transparency and accountability in the transfer of aid resources. Rather, many CSOs emphasize the importance of efforts to reform the nature of donor/recipient policy discussions to be more inclusive of all development actors in society and to be structured in relation to mutually-agreed international human rights obligations. The *Paris Declaration*, unfortunately, makes no commitments for reform along these lines.<sup>22</sup>

The failure of *The Paris Declaration* to set goals to eliminate donor-imposed policy conditions and benchmarks, which are the most important barriers to ownership because they undermine the space for locally-determined policy options for development and poverty reduction in the poorest countries must be rectified. While there is a strong consensus among all development actors that imposed conditions are both ineffective and unjust to the rights of citizens in poor countries, the *Declaration* fails to address this critical issue.

Governments can never be truly accountable to their citizens, and their parliaments, when policy prescriptions continue to be attached, by donors, as conditions for both debt cancellation and aid. Both donor policy dialogue with government and harmonization of aid practices in program-based approaches have tended to accentuate the impact of donor conditions with numerous additional “benchmarks” that must be achieved for the release of aid dollars.

Within highly unequal aid relationships, the governments of the poorest countries are very vulnerable to such conditions. They face an international environment that permits few options to stray from development policy “consensus”, which is largely a donor consensus. While not ignoring obligations to financial responsibility and accountability mechanisms for aid expenditures, donors must eliminate both economic and political conditionality and the use of donor-imposed benchmarks in their aid programming. As noted above, policy dialogue should be based on shared human rights obligations to progressively realize citizens’ human rights.<sup>23</sup>

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<sup>22</sup> Ibid

<sup>23</sup> Reality Check, Jan. 2007, *The Reality of Aid: Key Messages on the Paris Declaration*

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## **Mozambique: Donors Imposed Policies on Mozambique, Chissano Admits**

Mozambique's former president, Joaquim Chissano, has admitted that the foreign aid granted to Mozambique when he was in power "came with the imposition of prescriptions and the questioning of the predominant development paradigm".

Freed from the constraints of office, Chissano could now give his real opinion of the aid industry - and it is largely in line with what critics of the IMF, the World Bank and bilateral donors have been saying for many years.

The way in which aid was provided, said Chissano, undermined Mozambique's national sovereignty "and the possibility of freely choosing the policies to implement".

He did not cite specific examples, but it is more than likely that he had in mind such incidents as the 1995 diktat by the World Bank linking future loans to the dismantling of protection for the cashew processing industry, a demand which led to the closure of every large cashew plant by 2001, and the loss of around 10,000 jobs.

"Ill informed prescriptions by donors often failed because donors did not have a deep understanding of the situation in the recipient country", said Chissano.

The aid industry in Africa has existed for about 50 years, he noted, but "both donors and recipients seem united in their unhappiness and frustration with the achieved results". Chissano pointed out that "in most cases foreign aid to Africa did not start in a healthy atmosphere, in which all stakeholders were united to build success together".

On the contrary "anti-African" forces in the former colonial metropolises "were strong and influential, and determined to impede the development of the continent". Such forces included "not only those who lost something with the end of colonialism, but also those who were afraid of competition from a developed Africa".

Furthermore some forms of "aid" help, not Africa, but the donors themselves. "Through different strategies and mechanisms", said Chissano, "donors are perceived as ensuring that the bulk of the implementation of projects in Africa is reserved for their companies and NGOs, on the grounds that the local ones do not have the necessary technical and financial capabilities".

"The prevailing practice of extensive use of highly paid international consultants also ensures that local capacity is not created or consolidated, while sending back aid to the donor countries, instead of propelling the local economies", he stressed. "The very important concept and noble objective of capacity building was reduced into a never ending litany of seminars and workshops, many of which are of more than doubtful value".

Political strings were often tied to aid, "sometimes with negative consequences, particularly when countries are forced to introduce political reforms at a pace that threatens their stability", said

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Chissano. "At community level, some NGOs start projects and before they are consolidated, move to another place to start others, leaving unfinished work behind them".

And it is not only African governments who have problems with red tape. Chissano attacked the "cumbersome bureaucracy" of donor agencies which "leads cooperation to be more concerned with processes than with policy and results".

Understaffed African public administrations struggled to cope with the bureaucratic demands from multilateral institutions (Chissano named none in particular, but the World Bank is an obvious culprit), and then "the recipient countries are accused of lack of capacity to absorb aid".

In such cases, he argued, the real problem was the bureaucratic mechanisms of the donors themselves, "which can be made lighter, without the loss of control they are meant to ensure". Chissano also criticised the unpredictability of aid which made planning hazardous. He noted that the Organisation for Economic Cooperation and Development (OECD) admits that only 65 per cent of aid arrives on time.

There was also lack of coordination, "with many donors competing and doing the same thing, with the same people at the same time".

The 2005 Paris Declaration on the effectiveness of aid "seeks to put an end to the evident chaos in development assistance, by committing donors to supporting recipient countries' strategies to combat poverty and development programmes" - and Chissano was pleased to note that some donors were now taking this seriously, by letting recipient countries manage the money themselves.

The best way to coordinate aid, and to align it with the recipient country's own policies, was through general budget support, said Chissano - though he noted that the Mozambican experience with budget support threw up an unexpected downside in that "donors' common voice often becomes a common front in an unbalanced power relationship that may have dire consequences".

Chissano warned that "instead of ensuring aid ownership by the recipient country, general budget support may actually introduce donors more deeply into the heart of the government, thus compromising the latter's ability to formulate and carry out its policies independently".

He noted arguments that in the Mozambican government's key poverty alleviation plan, PARPA, "goals are mostly dictated by donor strategies, dictated by the dynamics of the international debate of the period it was enacted". And Chissano did not dispute such claims.

He even suggested that the constant stream of donor demands and delegations, the never ending rounds of meetings, constitutes a deliberate strategy. For "this overload becomes a serious factor in the recipient government's subservience on policy issues, as Ministers and officials spend so much time dealing with donors that they have insufficient time left to fulfill their government responsibilities". Chissano was convinced that "Aid does help the development of poor countries. But its quality and quantity must be improved".

Aid "must create and strengthen capacities in the recipient country". Examples such as that of the

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Malawian farmers who doubled their agricultural productivity and output in just one season, thanks to seeds and fertilizers received through aid, showed “that aid does work, if provided under the right quantity and quality”.

And it was not just a matter of throwing money at poor countries either. Quality was just as important, Chissano argued, since “you may mobilize an impressive amount of money, but if it is not going to be used according to a fair and balanced set of rules that bring together providers and recipient, the impact will just be very little or negative” So he believed that “in rethinking aid we must aim at enacting an effective compact bonding donors and recipient countries towards clear, expressive and visible results on the ground”.

Such a compact “should be based on a true spirit of partnership and solidarity, focused on lifting people out of poverty, generating economic growth and propelling poor countries to sustainable development”.

A system of mutual trust between donors and recipients was needed “centred on the notion of the acceptance of the recipient government’s leadership of the overall development process”, Chissano insisted. “Only when the government exerts leadership of the process, can it claim ownership of aid”.

In the compact he was suggesting, “recipient countries should set their priorities and donors should monitor their aid programmes without grossly interfering in policy formulation.

Donors and recipients must enter into a partnership where accountability is demanded of both parties”.

*Source: <http://allafrica.com/stories/200706120859.html>*

## **2. ALIGNMENT:**

### **What is meant by Alignment?**

In the Paris Declaration, donors commit to base their overall support — country strategies, policy dialogues and development co-operation programmes — on partners’ national development strategies and periodic reviews of progress in implementing these strategies.

Donors also commit to support and work through existing national processes in partner countries, not impose their own. Aid in support of national anti-poverty plans should be given as much as possible through the government budgets.

Donors commit to base their overall support — country strategies, policy dialogues and development co-operation programmes — on partners’ national development strategies and periodic reviews of progress in implementing these strategies.

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The problem this is meant to solve: Donors do not respect partner policies and strategies and do not use national systems for aid delivery because they consider these to be weak.

Using a recipient country's own institutions and systems, where these provide assurance that aid will be used for agreed purposes, increases aid effectiveness by strengthening the partner country's sustainable capacity to develop, implement and account for its policies to its citizens and parliament.

Partner countries and donors jointly commit to work together to establish mutually agreed frameworks that provide reliable assessments of performance, transparency and accountability of country systems.

The capacity to plan, manage, implement, and account for results of policies and programmes, is critical for achieving development objectives. In capacity development, primary responsibility rests with partner countries with donors playing a support role.

#### **Alignment: Case of Vietnam**

In the context of the Government of Vietnam's Harmonization Action Plan, alignment is defined as (i) cooperation between the Government and donors toward the formulation and implementation of the Five Year Socio Economic Development Plan (2006-2010) to ensure donors' alignment to it, and (ii) donors' alignment with Government's sector/sub-sector policies, strategies, and priorities.

#### **Alignment to Government Five Year Development Plan**

The overall objective is for donors to align future assistance to the priorities of the Government's Five-Year Socio-Economic Development Plan 2006-2010 (SEDP). The Prime Minister's Directive 33, sets out the framework for the preparation of the SEDP and presents a firm commitment from the Government to use CPRGS principles<sup>3</sup> and objectives in formulating the plan.

**Consultative Mechanisms Established.** There is an active dialogue between the Government and the donors on the formulation of the SEDP. Line Ministries and Provincial Governments are developing their respective plans in consultation with major stakeholders, including the donor community. MPI will then synthesize these plans into a National Plan to be completed by May 2005. To coordinate donor-activities in support of Vietnam's preparation of the SEDP, an informal working group has been established.

**Strengthening the Planning Process.** On a national level, donors are providing technical assistance and training to support the alignment of development strategies with the SEDP and help

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strengthening planning processes. At the provincial level, MPI has been coordinating a multi-province initiative with the support by some 10 donors to strengthen the skills and capacity needed for a more bottom-up style of planning. There are differences in the approach and scope of activities in this process across provinces, but also a number of common issues have been identified as need addressing in a systematic manner. The Poverty Task Force has initiated a review of this provincial experience in order to incorporate lessons learned into the SEDP.

Developing an ODA Master Plan.

To establish the strategic direction for ODA use over the coming five year plan period, a Master Plan on ODA Mobilisation and Utilisation 2006 - 2010 is being developed. The Master Plan will identify guiding principles, priorities and criteria for ODA utilisation to support the achievement of the SEDP targets.

The formulation of the ODA Master Plan is being undertaken in a consultative manner and a series of workshops have been organised to review the impact of previous ODA support and to identify needs of various domestic stakeholders for future ODA assistance.<sup>4</sup>

**Developing a Common Results-Based Monitoring Framework.** The Government is working closely with the development partners to design common indicators for assessing progress towards its strategic objectives, as set out in the five year plan, ten year strategy, and the Vietnam Development Goals with the goal to identify 4-5 strategic level indicators per sector that can be consistently measured by all stakeholders. This work is critical in providing key indicators for improved donor alignment and will allow the Government to assess relative contributions of each donor agency, and how the support provided is aligned with the outcomes that the Government is trying to achieve.

## **What are some CSO Criticisms of the Paris Declaration on the question of Alignment?**

Most donors now recognize the harmful effects of policies in the 1980s and early 1990s that undermined key development capacities of developing country states, particularly in Africa. After decades of decline, the *Paris Declaration* is a significant acknowledgement by the donors of the central importance of strengthening these capacities. This emphasis on state strengthening is needed all the more as donors focus on mutual North/South commitments to achieve the Millennium Development Goals (MDGs), many of which relate to social sectors (health and education) where the state must play a central role. In this context, reform of donor practices - to harmonize institutional requirements for planning, reporting and auditing and to coordinate support to state priorities in addressing social goals is welcomed.

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In the *Paris Declaration*, the primary benchmark to measure whether “aid flows [are] aligned on national priorities” is whether, by 2010, 85 percent of donor bilateral aid is directed to activities related to government sector budgets, primarily through “program based approaches” (which in turn are to make up two-thirds of bilateral resource transfers). However, there is no measure of the social and political legitimacy of these priorities outside of a commitment to consider the consultative processes for Poverty Reduction Strategy Papers (PRSPs) which are questionable in terms of democratic participation.

In a few developing countries, PRSPs have created political space for societal discussions of development priorities. But in many others, consultations are superficial and PRSPs remain as reflections of state/donor notions of strategies and priorities to reduce poverty.

The *Paris Declaration* locks donors’ bilateral programs into a centralized and exclusive relationship with Southern state actors - state actors that often represent the interest of only the wealthy and the elite. This “locking - in” may make it difficult for donors who also want to “align” their programs with civil society organizations that in turn will want to hold these same governments to account.

Today, many Southern CSOs are capable and have the independence to challenge their local and national governments for state programs that enable benefits for poor people. But this will not happen if resource transfers for these organizations are locked into donor-approved development “blueprints” designed and managed exclusively through government offices. If civil society organizations become only sub-contractors to their own governments in order to access donor resources, these organizations will be ill-placed to hold these same governments accountable for results.

Program-based approaches, which in practice have been exclusively with government, can centralize resources in the hands of ruling parties and elites who, in the context of very scarce resources on the ground, will tend to direct these funds through their particular supporters, to the exclusion of other interest groups.

Civil society organizations play crucial development roles in organizing cooperatives, trade unions, women’s organizations, or local health and education facilities that respond to local needs - needs that are often missed by state programs. Despite the strengthening of state programs they nevertheless continue to operate in the context of scarce resources and weak governance that often ignore the interests and rights of the poor.

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Aid effectiveness requires a more balanced donor approach in which a donor looks for niche areas to direct their support, while continuing to participate in donor-coordinated measures to improve the operations of government in key sectors. One such niche area is strengthening partnerships with a wide range of development actors within a particular sector. This could include supporting local-level development alternatives and capacities in civil society to improve the accountability of state programs to those who should be the beneficiaries of poverty reducing efforts.

### 3. HARMONIZATION

#### What is meant by harmonization?

A narrow definition of harmonization relates to increased coordination and streamlining of the activities of different aid agencies, and is based on three main underlying ideas:

- a) The development of *common arrangements* for planning, managing and delivering aid;
- b) The gradual *simplification of procedures* and specific requirements in order to reduce their burden on partner governments (e.g. reducing missions, reviews and reports, etc.);
- c) The *sharing of information*, in order to promote transparency and improve coordination.

The concept of harmonization is also used in a more general sense which also includes the concepts of alignment and ownership, and which claims that effective partnerships for development not only require donors to act according to the above principles, but also need to be based on the following objectives:

- a) Partner governments take a *leadership* role in setting the development agenda and in coordinating donor efforts;
- b) Development assistance is increasingly delivered in accordance with partner countries' *priorities*;
- c) Donors rely on partner country *systems* and *procedures*.

The push for aid harmonization derives from two areas. The first is the need to improve the public administration of aid, with the recognition that external aid can weaken public administration: currently, aid presents recipient governments with an array of different, sometimes incompatible and competing forms of

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appraisal, approval, reporting, and evaluation procedures. Harmonization seeks to reduce transaction costs for both the recipient and donor governments. The second factor is the idea that aid harmonization, through being tied to improved governance/ transparency conditions, will eventually enhance the effectiveness of external assistance through reduced waste.

In the Paris Declaration, donors commit to make their actions more harmonised, transparent and collectively effective. They pledge to implement common arrangements and simplify procedures.

Donors commit to conduct joint research and analysis, reduce their missions overall and do more missions jointly with others, do more programming jointly and reduce the reporting requirements they impose on recipient countries.

They commit to work together to reduce the number of separate, duplicative, missions to the field and diagnostic reviews; and promote joint training to share lessons learnt and build a community of practice.

Donors commit to align to the maximum extent possible behind central government-led strategies or, if that is not possible, donors should make maximum use of country, regional, sector or non-government systems. They pledge to avoid activities that undermine national institution building, such as bypassing national budget processes or setting high salaries for local staff.

Excessive fragmentation of aid at global, country or sector level impairs aid effectiveness. A pragmatic approach to the division of labour and burden sharing increases complementarity and can reduce transaction costs making more funds available for poverty reduction and other social programs.

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## **Jamaica**

Jamaica ranks 78th on the UNDP Human Development Index and is likely to attain many of the MDGs, including targets on poverty, child malnutrition, universal primary education, and access to safe drinking water. However, the Government of Jamaica (GoJ) is faced with a debt burden (estimated at 150 percent of GDP with interest payments of about 16 percent of GDP) and social issues that predominantly affect youth, such as high levels of crime and violence, and high unemployment (where the job-seeking rate is over 25 percent).

The Government's sustainable poverty reduction strategy includes the following pillars -

- Restoring economic growth;
- Protecting the poor and ensuring inclusion;
- Improving governance, efficiency and effectiveness in the public sector; and
- Ensuring sustainable development.

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In 2004, GoJ presented a Medium Term Socio-Economic Policy Framework (MTSEPF) for April 2004 – March 2007 with EC assistance in the document's preparation. The MTSEPF builds on the overarching policy framework established in the 1996 National Industrial Policy (NIP) which was designed to provide a systematic, holistic and comprehensive approach to the development of the country into the 21st century.

ODA in the form of loans, grants and technical assistance continue to support Jamaica's development agenda. In 2001-02, the top five donors of gross ODA in Jamaica were the EC, USA, Caribbean Development Bank (CDB), Canada and Japan. Bilateral donors' share of gross ODA in this period was around 55 percent with its sectoral distribution as follows – (i) approximately 55 percent was used in the social sectors (with about 10 percent each for the education sector as well as the health and population sector) and (ii) of the remaining 45 percent, roughly 12 percent was spent on economic infrastructure and services. However, in 2003, the level of new ODA declined by 53.1 percent compared with 2002 (mainly due to the government's decision to restrict new borrowing due to fiscal restraint). Grants accounted for about 76 percent of total ODA in 2003, with the EC being the largest provider of grant resources to Jamaica.

There are fifteen donors (multilateral and bilateral) with active programs in Jamaica. The Planning Institute of Jamaica (PIOJ), through its Technical Cooperation Division, is the primary interlocutor for all donors. Donors are supporting the Government's efforts on harmonization (e.g. in the areas of procurement, financial management and environmental safeguards). The World Bank (WB) is taking the lead on the donors' side and its resident representative is the point of contact with other donors on harmonization. The UN group, including specialized agencies, is coordinating through the Resident Coordinator Office in the UNDP.

Donor coordination is achieved through a number of working groups (e.g. on poverty, education, infrastructure, and environment), theme groups (on HIV/AIDS – chaired by UNICEF, and on Social Capital – co-chaired by UNDP/WB), an annual donors' retreat coordinated by the UN Resident Coordinator, and ad-hoc policy meetings with government counterparts.

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IADB funded a consultant (Sept. 2003 – April 2004) to assist PIOJ in developing their donor coordination and harmonization capabilities, which included, among other things, writing TORs for projects for possible funding and technical support for GoJ.

Under the Parish Infrastructure Development Program (PIDP), IADB is working with the Ministry and CIDA to develop an overall program with shared objectives and determine separate but coordinated funding activities in the area of local government reform.

Along with other donors, CIDA supported a joint public sector modernization program, pooled resources for a regional HIV/AIDS program, and provided budgetary support.

DFID and WB are working toward a common country strategy. Also, IADB and WB are collaborating on key issues in country strategy planning.

## **What are some CSO criticisms on the question of Harmonization?**

Harmonisation can be a double-edged sword. Donors may gang up against partner country government. The scope for negative peer pressure increases with harmonised aid. Flexibility of aid may also suffer (e.g. donors less willing to finance activities that not all donors agree upon even if the partner country would like them to).

The donors coordinate and harmonize their techniques with a view to having a greater say in the preparation and implementation of national policies. Conditionality is very powerful when it is imposed in a collective manner and in this framework, alignment and harmonization increase the power of donors, in what is already a very asymmetrical donor-beneficiary relationship. What room will the Southern governments have at their disposal when faced with a cartel of donors in alignment with a common framework? Furthermore, experience shows that in these multilateral frameworks, procedures “are harmonized” with the IFI procedures and their macro-economic indicators, rather than more open indicators.

The central issue is not in itself to question the virtues of “harmonization” but rather the context within which the process falls and the implications for preparing and controlling development policies. Without question CSOs cannot but adhere to the good principles laid down by the Rome and Paris

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Declarations (“*ownership*”, ability to predict aid delivery, mutual openness...) and encourage donors to implement them.

CSOs are not opposed to the principle of harmonization but stress the need to ensure a balance between the necessities of donor harmonization and coordination, autonomy of the partner countries in the preparation and implementation of their public policies, and the necessity to maintain the diversity of the players involved in cooperation. The essential factor for the smooth coordination of aid is a coherent national policy, which presupposes a strengthening of States, within the framework of a dialogue with the civil societies and the local organizations.

CSOs have the feeling that the present focus on aid harmonization, as embodied in the Paris Declaration, is yet another attempt to marginalize civil society in development processes.<sup>24</sup>

In recent years there have been many attempts to re-establish the state as the sole engine for development. This move is a counter-reaction to the ‘rolling back the state’ agenda favored during the heady days at the end of the cold war when the private sector reigned supreme. There is now an increasing emphasis on the role of the state – as the focus of new forms of international development co-operation. Such initiatives since the mid 1990s include PRSPs, sector wide program support and overall budget support. The latest initiative is the move towards aid harmonization.<sup>25</sup>

From the point of view of recipient governments and major donors, aid harmonization has clear advantages. However, there is some concern that there are few, if any, references to civil society in the increasingly unanimous voice from donors’ materials on aid harmonization. There are only some oblique references to civil society being sub-contractors of local government, with the one exception being that in more fragile states civil society may still have a larger role.

Implicit in the aid harmonization debates is that all international assistance (including NGO assistance) should go through local governments and be a part of a unified aid program set by government within a single and coherent framework.

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<sup>24</sup> Brian Pratt, Executive Director INTRAC

<sup>25</sup> Ibid

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Critiques of this model note that the concept of harmonization is built on several assumptions that may well be contentious and therefore highlight the following problems:

- 1) National development plans are not always the product of democratic processes, and may not represent the views of all development actors.
- 2) In light of the many unstable governments around the world, it is a good guess that some of those in receipt of budget support, and within the new harmonization model, will come unstuck through corruption and/or undemocratic structures.
- 3) A focus on a single aid basket (harmonized aid) makes the poor vulnerable to political change engendered both by the state and donors. History has already given us many examples of populations being penalized because of their governments, but history also shows how civil society has managed to move into the space left by errant states far more quickly than the state and official donors have been able to.
- 4) Even if the host government is democratic, others feel that it is not the role, nor necessarily the priority of civil society to dedicate itself to achieving government centrally agreed development goals. This is because, by definition, civil society groups will have their own constituencies on whose behalf they will be working. For example, the priorities of a federation of visually impaired people will clearly be different from an overall universal health or social welfare approach from central government. It is the interchange between these priorities and stakeholders that contributes to genuine democracy and diversity. To what extent will this interchange continue to be permitted?
- 5) Civil society should not exist to assist governments to meet their targets as this reduces them to an instrument of the state, tied to a single set of aims set externally. Even where government policies are pro-poor and pro-democratic, civil society should be valued because of its diversity and independence, not because it is an extension of the state.
- 6) Admittedly, often the response from civil society may be to provide services in the short term. But this can be crucial in a situation of crisis. Civil society has also kept open the democratic space over many years under repressive regimes, and often under extremely difficult conditions.

If we look for example at the new EU plans for funding, from 2007 onwards there will be no co-funding mechanism for European NGOs. Instead, all funding will be passed through EC country offices (delegations) and will have to fit within the overall country strategy plans agreed between the delegation and recipient government. This would accord with the new push towards

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harmonizing aid and developing greater recipient government ownership over the aid program in their countries.

At stake is not only the issue of how European NGOs will cope with this withdrawal of funds, (although this may well have far-reaching implications for the many who receive a considerable proportion of their budgets from the old co-funding program, known as B7000). Of greater concern are the implications this has for the development of a local, independent and autonomous civil society in recipient countries. For example, the policies of the Paris Declaration, as illustrated by the EU plan, show a failure to grasp the real value of civil society within a developmental context.<sup>26</sup>

#### **4. MANAGING FOR RESULTS**

##### **What is meant by Managing for Results?**

The *Declaration* calls both on donors and recipient countries to manage and improve their decision-making in view of concrete results on aid effectiveness. Developing countries are asked to put into place “performance assessments” for measuring progress in their development strategies. Donors should make their aid more results-focused, ensuring that it enhances poverty reduction. The aid effectiveness agenda therefore requires setting up monitoring processes and data collection for each stage.

The MR approach:

- is built on clarity of goals and objectives
- provides systems for measuring and monitoring performance and results
- promotes a learning culture
- assumes beneficiary participation at all stages of the development process
- requires clear accountabilities in a decentralized framework
- links results with planning and resource allocation

Introduction of MR techniques is expected to move attention away from an internal activity orientation and financial inputs towards much greater focus on the achievement of development results at the country level. Ultimately, the objective is to manage better the entire project and program cycles and to ensure that expected outcomes are fully aligned with national development priorities.

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<sup>26</sup> Ibid

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Managing for results means managing and implementing aid in a way that focuses on the desired results and uses information to improve decision-making.

Partner countries commit to strengthen the linkages between national development strategies and annual and multi-annual budget processes. They shall endeavour to establish results-oriented reporting and assessment frameworks that monitor progress against key dimensions of the national and sector development strategies; and that these frameworks should track a manageable number of indicators for which data are cost-effectively available.

Donors commit to link country programming and resources to results and align them with effective partner country performance assessment frameworks, refraining from requesting the introduction of performance Indicators that is not consistent with partners' national development strategies. They shall work with partner countries to rely, as far as possible, on partner countries' results-oriented reporting and monitoring frameworks.

They shall harmonise their monitoring and reporting requirements, and, until they can rely more extensively on partner countries' statistical, monitoring and evaluation systems, with partner countries to the maximum extent possible on joint formats for periodic reporting.

### **How Managing for Development Results Principles were Applied to Public Expenditure Management and Sustained Poverty Reduction in Vietnam**

*1. At all phases – from strategic planning through implementation to completion and beyond – focus the dialogue on results for partner countries, development agencies, and other stakeholders.*

- An expectation for *results* was internalized in the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) by focusing attention on a fully “Vietnam-ized” version of the results-oriented Millennium Development Goals.
- Led by CPRGS, ministries and provinces are refo-cusing the coming five-year socioeconomic devel-opment plan away from production input targets, and focusing instead on outcomes.

*2. Align actual programming, monitoring, and evalua-tion activities with the agreed expected results.*

- Diagnostic studies on the actual performance of state-owned enterprises led to – or at least point to the continued need for – reform of state-owned enterprises.
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- The budgeting process for major capital expenditure is moving toward greater use of cost-benefit analysis.
  - A forward-looking Medium-Term Expenditure Framework is being developed that focuses on results through better consideration of operation and maintenance costs.

*3. Keep the results reporting system as simple, cost-effective, and user-friendly as possible.*

- From a preliminary ministry list of 293 indicators, and 136 indicators initially developed for the Comprehensive Poverty Reduction and Growth Strategy, a simplified “core” of 30–60 indicators has been developed.
- The General Statistical Office has not only produced and disseminated a vast amount of high quality research on the causes of poverty, it has helped stimulate a lively debate on what to do about it through broad dissemination in understandable formats.

*4. Manage for, not by, results, by arranging resources to achieve outcomes.*

- Acknowledgement that the emphasis on large-scale infrastructure investment should gradually shift from “roads and bridges” to benefits for beneficiaries.
- The core concept of the CPRGS – an inclusive participatory process to manage for results in both growth and poverty reduction – evolving into the mainstream as a central tenet of a formerly central planned economy’s official planning process.

*5. Use results information for management learning and decision making, as well as for reporting and accountability.*

- Recognizing the difficulties of aggregating and measuring poverty rates, a task force has been appointed to propose an improved system of poverty indicators.
- Access to the budgeting process has helped local governments to address the discrepancies between their assigned responsibilities and the fiscal resources available to them.

## **5. MUTUAL ACCOUNTABILITY**

### **What is meant by Mutual Accountability?**

Donors and partners are accountable for development results. This means two-way accountability in the aid relationship so that donors can hold developing countries to account, but that also developing countries and their citizens (men and women) can also hold donors responsible.

From the donor side, these principles require actions both at headquarters and on the ground at the country level. At the country level, donors have taken

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some action such as improving the coordination of budget or sector support; In some countries (e.g. Tanzania) donors have signed up to a Joint Assistance Strategy to help minimise the duplication involved with each donor having their own country strategies. However, so far evidence suggests a relative neglect of cross-cutting issues in favour of sectoral issues, at the expense of assessing gender equality relevance. In some countries – e.g. Mozambique – the government and donors have agreed mutual commitments in a Performance Assessment Framework (PAF) which governs the overall relationship between (budget support) donors and the government.

In the donor country, some efforts are being made to streamline government decision-making agencies for development (Germany, Italy), to carry out more joint analysis (Joint donor evaluation on budget support) and to simplify procedures to improve efficiency of disbursements. Information on what actions donors have taken “at home” so far does not appear to be easily available in any centralized location.

A major priority for partner countries and donors is to enhance mutual accountability and transparency in the use of development resources. This also helps strengthen public support for national policies and development assistance.

Reinforce participatory approaches by systematically involving a broad range of development partners when formulating and assessing progress in implementing national development strategies.

Donors commit to provide timely, transparent and comprehensive information on aid flows so as to enable partner authorities to present comprehensive budget reports to their legislatures and citizens.

Partner countries and donors commit to jointly assess through existing and increasingly objective country level mechanisms mutual progress in implementing agreed commitments on aid effectiveness, including the Partnership Commitments.

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## What are some of CSO concerns on the question of mutual accountability?

The *Paris Declaration* says little about strengthening the independent capacities of developing country partners to assess progress on the part of donor partners in achieving the *Declaration's* goals.<sup>27</sup>

The *Paris Declaration* acknowledges the importance of *mutual* accountability in committing to “jointly assess through existing and increasingly objective country level mechanisms mutual progress in implementing agreed commitments on aid effectiveness...”. But, the *Declaration* merely calls for country level assessments to be in place by 2010 without suggesting parameters for these assessments to increase both equality in the aid relationship and a more comprehensive inclusion of country level development actors.<sup>28</sup>

Strengthening the *independent* capacities of developing country partners to assess their own progress in achieving the *Paris Declaration* goals is given no attention in the *Declaration*, or in subsequent suggested processes for monitoring progress. Rather, the current assessment framework for the *Declaration* relies heavily on the World Bank's own assessment of progress in its Comprehensive Development Framework (CDF), its Policy and Institutional Assessment (CPIA) and donors' own assessments of procurement policies. This lack of recipient input into assessments by the CDF and the CPIA has been noted with concern by several donors.

CSOs are calling for a more comprehensive approach to mutual accountability and transparency in aid spending. Accountability, for CSOs, is not just about technical, contractual relationships in aid spending, but also about addressing the political inequalities in donor/recipient relationships. Strengthening independent institutional monitoring of donors against clear and enforceable benchmarks for donor performance is essential.

There have been some recent examples of recipient-led independent monitoring of donor performance in Mozambique and Tanzania (by the Tanzania Independent Monitoring Group), with some limited but positive improvements in donor practice. Unfortunately, there has been little effort to adopt this practice elsewhere. Effective independent assessment must accompany a democratization of the aid regime, with particular emphasis on governance

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<sup>27</sup> Brian Tomlinson, *The Paris Declaration on Aid Effectiveness, Donor Commitments and Civil Society Critiques*

<sup>28</sup> *Ibid*

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reform in the International Financial Institutions, where donors still exert too much control over policies and practices to enable good development processes.<sup>29</sup>

Mutual accountability in the context of highly unequal power between donors and aid-dependent developing countries requires a commitment to fundamental reform of International Financial Institutions. Donors must also expressly reform their aid institutions in ways that enable mutual accountability. The World Bank plays a leading role in setting the terms of “development partnerships”. The harmonization of donor practices, called for in *The Paris Declaration*, accentuates the power of multilateral institutions, in which developing countries, and particularly the poorest, have little say on IMF/World Bank priorities and their development policy blueprints for developing countries.<sup>30</sup>

Mutual accountability requires transparent participation of citizens in assessing the success or failures of reform to produce poverty reduction results. Without greater democratic roles for developing countries in the IFIs and a reduction of their current influence over the policy space for policy alternatives available to developing country governments, donor “harmonization” of their policy prescriptions in their engagement with developing country governments, only accentuates the absence of democratic accountability of these governments to their citizens. With unreformed IFIs, donors will fail to take into account the critical importance of local knowledge and locally-determined appropriate policies that may contradict current “wisdom” in these institutions.<sup>31</sup>

The commitment to mutual accountability will only be rhetorical without democratic reform of bilateral donor aid institutions and practices. Mutual accountability requires real change in current donor practices. Donors must fulfill their commitments to improved aid effectiveness, including the complete untying of their aid programs, greater predictability of aid flows, full transparency in aid program priorities and strategies, and sufficient financial resources to make the necessary progress in eradicating poverty. Mutual accountability also requires changes in donor behaviour that respects and promotes equitable partnerships, including addressing the often informal influences over developing country partners resulting from donors’ financing power.<sup>32</sup>

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<sup>29</sup> Ibid

<sup>30</sup> Reality Check, January 2007, *The Reality of Aid: Key Messages on the Paris Declaration*

<sup>31</sup> Ibid

<sup>32</sup> Ibid

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## **What is the place of civil society in the international aid architecture?**

Civil society organizations are a crucial element in the two aspects or areas of the aid effectiveness agenda: in the second area of aid management where CSOs act as important watchdogs and in the third area of aid delivery where CSOs ensure the empowerment and participation of the poor in development. This is not a simple matter of being donors in their own right or as channels of official development assistance easily misconstrued to be ‘subcontractors in the aid industry’.

The CSO roles in society in promoting solidarity or acting in the public interest make them an important part of the international aid architecture. They have a crucial role in realizing aid effectiveness in ensuring effective aid delivery and human rights of the poor, in acting as watchdogs to ensure accountability and in acting as motivators in ensuring participation of the people in development policy dialogue.

The concept of civil society encompasses a wide range of organizations. In a broad sense, it includes all non-market and non-state organizations and structures in which people organize to pursue shared objectives and ideals.

In the development field, there is a tendency to think primarily in terms of non-governmental organizations (NGOs) whose missions are explicitly and uniquely developmental in character. But civil society also includes farmers’ associations, professional associations, community-based organizations, environmental groups, independent research institutes, universities, churches, labour unions, and the not-for-profit media, as well as other groups that do not engage in development work. This broad definition is widely accepted in the world of development practitioners.

As donors, developed-country based (or Northern) civil society organizations (N CSOs) mobilize billions of dollars in voluntary contributions in cash and in kind for development purposes. The latest estimates of the OECD-DAC (the Development Assistance Committee of the Organization of Economic Cooperation and Development) put the amount of such contributions at approximately \$14.7B US in 2005, equal to about 14% of all Official Development Assistance (ODA) or 18% of ODA exclusive of debt cancellations (OECD-DAC Statistics on Line, 2006: Table 1). This amount is most likely underestimated by a considerable factor.<sup>33</sup>

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<sup>33</sup> These are country estimates made by donors in their report to the DAC, which are often educated guesses (Canada) and for some countries are not even reported to the DAC (e.g. France, Norway, Spain and the US). Furthermore, reporting is for “private voluntary organizations” rather than the full range of CSOs.

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CSOs also act as channels or recipients of official donor assistance, receiving funds from official donors for use in their development programs or for redistribution to other CSOs. The share of donor funds to CSOs varies considerably from donor to donor. In 2004, flows to and through CSOs from the DAC's top 15 CSO funders ranged between 6 to 34% of their bilateral ODA, totalling approximately \$4.6 B US, although this amount, too, is underestimated.<sup>34</sup>

The large amounts of ODA that CSOs are able to raise from donations and other economic activities is secondary to the decisive role that CSOs play in ensuring the realization of human rights of the poor, of ensuring empowerment to realize the poor's goals for development and strengthening solidarity with the poor. Human rights based approaches in development are pioneered by CSOs to strengthen development results and achieve significant poverty reduction.

CSOs play an important role as advocates and watchdogs of both governments and donors. In this capacity, CSOs promote aid effectiveness even where the funds do not flow through CSOs themselves, by pushing for donor funds to be used in ways that maximize their impact on the poor. At the country level, multi-stakeholder processes of policy dialogue are increasingly present as part of budget support operations or sector-wide approaches. CSOs could also play an important monitoring role as part of mutual accountability processes to be developed in implementing the Paris Declaration.

Finally, the objective of securing a greater voice for civil society in general discussions of aid effectiveness is closely related to the above discussion, since it is the place of civil society in a democratic society and its role as part of the international aid architecture that justify CSOs' claim to a seat at the table in discussions of aid effectiveness at both the international and country levels.

As development actors, CSOs share an interest in aid effectiveness for keeping development efforts on track, for drawing attention to outcome and impact level results, and for drawing lessons of good practice from accumulated experience. It is the paramount interest of CSOs that human rights of the poor be the main agenda in development, and to this end, that the principles of equality, mutual cooperation and benefit in aid relationships are observed. The shared pursuit of aid effectiveness provides a legitimate entry point for dialogue among all development cooperation actors, including CSOs.

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<sup>34</sup> Compiled from DAC statistical data Table 1, line items 015, 076, 077, 421. These figures under-represent DAC members' flows to CSOs as direct funding to local CSOs is often not included, nor are flows through other institutions such as multilaterals. In addition, some donors, such as the U.S., do not report their flows to and through CSOs.

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## **To what degree and in what way are Paris Declaration aid effectiveness principles applicable to CSOs?**

The issue of aid effectiveness is very much applicable to CSOs as development actors: in their relationships among each other and their constituencies, in their relationships with their Northern counterparts, in their relationships with government and in their relationship with donors. The applicability of aid effectiveness principles enunciated in the Paris Declaration have to first be reoriented from the starting point of the objective of CSOs and the roles they play and relationships they come into in the work of development.

CSOs are defined principally by the goals and objectives of social solidarity to specific constituencies (defined in various ways and in the issues and common goals they pursue) and thenceforth to the general public. This solidarity can be international as is the case of Northern CSOs involved in international development work and issues.

There is thus a fundamental difference in the nature of CSO relationships founded on international solidarity towards the poor and donor-country relationships founded on international cooperation for governance and development towards poverty reduction. In the latter case, the final objective towards poverty reduction is oftentimes forgotten or is optional while in CSO relationships the empowerment of the poor to liberate themselves from poverty is fundamental.

It is no wonder that the aid effectiveness agenda for aid delivery can be constructed, as it is constructed, as the foundation for reform in ODA, whereas in CSO relationships, even the most straightforward service delivery by 'CSO aid contractors', by its very nature must be measured along the lines of development effectiveness and human rights.

Many parties are comforted by the parallels of ownership, harmonization and alignment in the Paris Declaration as seemingly applicable to CSO relationships, but while these parallels are based to a certain degree by a commonality of principles of self-determination and national sovereignty that also guide international relations, the more important common denominator for CSO relationships is the promotion and recognition of human rights which are the foundation of self-determination and popular sovereignty.

Bearing in mind these clear distinctions behind the parallels in aid effectiveness applicability, the more important discussion is the implication of aid effectiveness

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application on donor-country relationships to the role of CSOs in such areas as mutual accountability, managing for results, harmonization and alignment.

Related to this is the more detailed analysis of the five relationships involving CSOs as pursued by the Advisory Group on CSOs and Aid Effectiveness of the Working Party on Aid Effectiveness. (See Concept Paper and Issues Paper of the Advisory Group on CSOs and Aid Effectiveness). These specific relationships are:

- Between CSOs and their primary constituents (the people they serve or represent)
- Between and among CSOs at country level and beyond
- Between Northern and Southern CSOs specifically
- Between CSOs and developing-country governments
- Between donors and CSOs.<sup>35</sup>

In interrogating these relationships, the dual questions of applicability of Paris Declaration aid effectiveness principles outline above can be made in more detail. Furthermore normative analysis can be made towards promoting CSO voice and roles as well as developing support to CSOs in developing countries as a crucial element of democratic development and aid effectiveness.

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<sup>35</sup> Advisory Group on CSOs and Aid Effectiveness, Civil Society and Aid Effectiveness Issues Paper, version August 13, 2007.

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## APPENDIX I

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### CSO International Steering Committee for Ghana Policy Paper on Aid Effectiveness Draft, July 9, 2007

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#### **The Paris Declaration on Aid Effectiveness and its Implementation: Can this agenda and process deliver real development effectiveness?**

Since donor countries members of the Organization for Economic Cooperation and Development (OECD), together with government representatives from so-called developing countries and some multilateral institutions signed the Paris Declaration (PD) on Aid Effectiveness in 2005, diverse Civil Society Organisations (CSOs) have been engaging with the process of implementation, monitoring and evaluation of this agreement, trying to raise concerns, bring in different perspectives and mostly, trying to ensure that this new framework for effective aid delivery to the South really translates into effective development processes which contribute to poverty eradication, environmental sustainability, gender equality and human rights.

CSOs engaging with this process, have been promoting a deepening analysis of the aid effectiveness agenda that addresses the interests of not only the donor and partner governments but of all stakeholders, especially the population excluded or marginalized, in a genuine country ownership of development programs and processes. In this sense, women and women's movement have been part of those particularly neglected in participatory stakeholder processes. CSOs argue that

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the only true measure of aid effectiveness, for all development actors, is its contribution to the sustained reduction of poverty and inequalities.

## **A CRITICAL CSOs APPROACH TO THE AID EFFECTIVENESS AGENDA**

### **The Paris Declaration: an agreement with significant limitations**

The new regime of aid effectiveness, harmonization and alignment and its three planks of poverty reduction, country ownership and participation of key stakeholders in national planning process would seem to support well democracy and participation, as well as the strengthening of Southern governments to meet their human rights obligations for health care or education for their citizens. However, PD objectives and assessment indicators for donor commitments do not address how aid resources would actually affect the conditions that sustain poverty and inequality. The PD agenda is structured narrowly on aid delivery rather than on broader framework of sustainable development, gender equality, environmental sustainability and human rights. Therefore, an alternative framework is required.

### **The PD: a political agenda and not merely a ‘procedural’ one**

Unlike what some donor government representatives say when describing what the PD is, stating that it is basically an agreement on how to improve the way in which aid flows to recipient countries and lower the transaction costs, CSOs believe that the PD is a political agreement as well, and therefore, all the issues and content not addressed in it have to be included in the process of implementation, monitoring and evaluation.

### **Ownership is good in principle, but it has to be democratic**

It is widely accepted that ownership is the cornerstone of development – unless countries are able to decide and direct their own development paths, development will fail to be inclusive, sustainable or effective. Country ownership of development programmes should be understood as more than simply government ownership, but as democratic ownership that should stand for the involvement of all civil society stakeholders, including women’s organisations, in the formulation and delivery of policy and programmes, on the one hand, and the set up of mechanisms that ensure participatory decision making and participatory accountable governance mechanisms, in the national development plans and processes, on the other hand.

Changes are needed in southern countries as well. The capacity of governments and citizens in the south to engage with this agenda needs to be strengthened, and southern governments need to set out open and transparent policies on how aid is

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to be sourced, spent, monitored and accounted for. For this, they must be accountable to their citizens with effective mechanisms of answerability and enforceability.

**Alignment and harmonization are good as long as they reinforce democratic ownership**

Alignment to country programs and harmonization of donor practices are extremely important but should be accompanied with achieving genuine ownership, where all forms of policy conditionalities are removed, and respect for human rights, gender equality, environmental sustainability and mutual accountability is achieved.

In this regard, donors should support and work through existing national processes, not impose their own plans and aims. Aid should support national poverty plans, and be given as much as possible through the government budgets.

**The need for a strong monitoring and evaluation framework**

As CSOs around the world we argue for rights-based obligations as a normative and organizing framework for monitoring donor progress in the aid system. This approach underscores the primacy and application of internationally agreed to human rights instruments, including the Right to Development.

**Accountability is good, but for both donors and recipient countries**

Making aid accountable to southern citizens means radically improving efforts to make donors and governments answerable for the use of aid, and introducing new mechanisms of enforcement to allow poor countries to force donors to keep to the commitments they have made. Existing international and regional human rights mechanisms of accountability (such as treaty bodies) should be fully considered as part of the mechanisms to monitor the implementation of this agenda.

As part of this process, progress on transparency of information is crucial. At present there is very little, if any, information available to enable recipient governments to assess the quality of aid available from different donors and to take the leadership role that the Paris Declaration states they should.

**Mutual accountability requires reforming the IFIs**

Mutual accountability in the context of highly unequal power between donors and aid dependent so-called developing countries requires a commitment to a fundamental reform of International Financial Institutions (IFIs). Without greater democratic participation of so-called developing countries in the WB and IMF and without a reduction of these institutions' current influence on policy choices

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available to so-called developing country governments, donor ‘harmonization’ of policy prescriptions in their engagement with recipient governments only accentuates the absence of democratic accountability of these governments to their citizens.

Furthermore, the commitment to mutual accountability will only be rhetorical without democratic reform of bilateral donor institutions and practices.

### **Good aid is untied**

The PD contains no targets or indicators relating to a reduction of conditionality or benchmark triggers for the release of donor funds. Donors often undermine democratic accountability through secret policy dialogues with recipient country government’s officials on aid and debt conditions, in which their citizens are largely unaware and have no role. The use of aid as policy tool to impose economic and trade policies and other conditions, has no place in an aid paradigm rooted in a commitment to local ownership.

In the end, CSOs believe there is still a lot of asymmetry in the power dynamics that will influence the results of the policy framework that will emerge from national policy dialogues on the Paris Declaration. There is still a creditor and a debtor relationship determining what the conditionalities are, where there should be none.

## **SOME CSOs CLAIMS AND PROPOSALS TO DEEPENING AID EFFECTIVENESS IN THE ROAD TO GHANA 2008**

### **Recognition of the centrality of human rights, gender equality and environmental sustainability**

These three main goals of development add important qualitative dimensions to the implementation of the key principles of the Paris Declaration. Each hinges on strengthening empowerment, local capacity, participation, transparency, leadership and joint responsibility.

### **Policy conditionalities should be ended**

All policy conditionalities, including benchmarks, which are implemented in the form of conditionalities, prevent partner countries from exercising policy options and democratic ownership of development and poverty reduction strategies. Policy conditionalities, as differentiated from fiduciary responsibility and accountability mechanisms for aid expenditures, render governments unaccountable to their citizens and their parliaments, as policy prescriptions continue to be attached as conditions for both debt cancellation and aid. All policy conditionalities must be ended and

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ambitious targets must be set for simplifying or reducing the overall number of donor imposed fiduciary requirements on developing countries.

Therefore, aid should not be instrumentalised for foreign policy (i.e. migration), economic and other donor interests while the leaving those who most need to benefit from development, in a position of powerlessness and holding an empty bag.

Aid terms must be fairly and transparently negotiated with participation and accountability to people living in poverty and in line with the principles and obligations of International Human Rights Conventions, including the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW).

**Ensuring MEANINGFUL participation by CSOs at all levels**

CSOs are demanding to have MEANINGFUL engagement and participation in the whole process of implementation, monitoring and evaluation of the aid effectiveness agenda. By MEANINGFUL we mean: clear mechanisms of participation at all levels, with enough resources to ensure broad representation of diverse CSOs (including the commonly excluded groups, such as women, peasant, migrant, refugee and indigenous, among others).

Clear parameters and accountability on how recommendations and proposals presented by CSOs will be seriously considered in the process should be decided in conjunction with CSOs.

Meaningful participation of CSOs, includes a meaningful participation in all the activities at HLF in Accra. CSOs perspectives must be part of the official discussions, in order to ensure a multi stakeholder dialogue on the issues at stake.

In addition, CSOs want to push for having a specific roundtable on gender equality and aid effectiveness, in order to fill one of the major gaps in this PD process. Around the world women and girls are disadvantaged, excluded, discriminated against, and in many cases, denied their rights. Aid effectiveness towards poverty eradication cannot be deemed effective unless it tackles this central issue. Meaningful participation of women's organizations in the roundtable is key to ensure the voices of women from the ground are taking into account, as well as their concerns and proposals.

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### **CSOs should be recognized as diverse in their characteristics and roles**

CSOs have diverse characteristics and play significant roles at different levels. For example, they have a role in providing effective delivery of development programs and operation, in social empowerment of particular groups and contributing to the realization of human rights, some of them are also donors or channels of assistance; and many of them play the role of watchdogs. These key roles played by CSOs as development actors in their own right need to be recognized.

### **CSOs as key stakeholders in this process, with their own agendas**

CSOs refused to be instrumentalised in this process as mean to implement the PD commitments (e.g. alignment of CSOs with country poverty strategies) vs CS as development actors in their own right who might apply some of the same PD principles or not, as appropriate to their roles.

### **CSOs cannot substitute the functions and responsibilities of governments**

The roles assumed by CSOs clearly are not a substitute for the obligations of governments to meet their responsibilities to all their citizens. As such, governments must be supported in their development efforts. CSOs are the expression of an active democratic citizenship, without which little progress can be made in relationship between governance and development. An active civil society is an essential component of democratic culture, which requires respect and encouragement of pluralities of views, human rights, gender equality, and policy and development alternatives.

### **Ensuring an enabling environment for CSOs engagement**

Enabling conditions for CSO activities in South – legal frameworks, lifting restrictions on the right to organize; new modalities of donor support through foundations / international NGOs.

### **Technical assistance should be really demand-driven and not imposed**

### **The need for an independent monitoring and evaluation system**

As the official survey to monitor and assess the implementation of the PD relies on self-assessment of donors or World Bank data on certain indicators, there is insufficient confidence in the indicators and monitoring system. CSOs believe that a more impartial assessment is needed for the survey to be credible and to ensure comparability of data between donors and across countries.

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### **The problems of how effectiveness is ‘measured’**

For CSOs ‘effective aid’ can be measure only by how much aid actually reaches those who are more in need of it and empower those populations to claim for their rights, particularly women. On the contrary, the indicators set out by the PD are often considered to measure the degree of the recipient government compliance with donor ‘norms and values’ . May aid effectiveness indicators rely too heavily on World Bank data, criteria and analysis. This gives power to the WB to determine whether countries’ strategies and systems are ‘suitable’ or not.

### **Move this aid reform process to a more multilateral and representative instance, such as the United Nations**

The OECD is a very limited international instance, and southern-countries engaging with this process are among the most aid-dependant ones, which renders them unable to hold strong positions. The aid reform process is relevant enough to be dealt within a broader multilateral institution with clearer and more transparent negotiating mechanism, such as the UN. Aid effectiveness implementation, monitoring and evaluation should be placed as part of the broader UN agenda of financing for development.

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## **APPENDIX II**

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### **NGO Statement on Aid Effectiveness**

*February 25, 2005*

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Twenty -Six NGOs call on donors to be bolder in their vision and commitments on aid effectiveness.

I NGOs from North and South met on 3rd February to discuss with donor and creditor representatives ahead of the Second Forum on aid harmonization. This dialogue was a welcome step but as yet has not translated into specific commitments. NGO representatives following this process would like to make the following points.

II The current draft of the Paris Declaration on Aid Effectiveness[1] fails to go far enough in tackling the fundamental obstacles that prevent aid from going to those people who need it most. Representatives of donor and partner countries must be bolder both in vision and commitments if there is to be any hope of creating a new aid architecture that will help us achieve the United Nation's Millennium Development Goals by 2015.

III Our organizations believe this declaration is important and much needed. However, at present it fails to address one of the fundamental problems with aid delivery – how it is allocated between countries – and does not go nearly far enough on national ownership over development policies and procedures, building developing country capacity, enhancing aid predictability and untying aid. The NGOs consider that donors and recipients share responsibility for making aid work.

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IV The Draft Paris Declaration has some indicators. However a number of important issues in the declaration have no indicator to match them and a number of the existing indicators are very weak and vague. Ministers need to agree and commit to a set of time-bound and meaningful targets. They should also agree to ensure that robust monitoring and reporting mechanisms are in place at country and international level to ensure the Declaration is acted upon. Without these the declaration will sadly be of little practical use, much like its predecessor the Rome Declaration on Harmonisation on which implementation has been far too slow.

V NGOs consider that the good principles in the Paris draft Declaration cannot really be put into practice without a profound reform of the aid regime. This must include the more democratic governance of the international financial institutions.

VI In order for the Paris Declaration on Aid Effectiveness to make a real difference to the way aid is delivered it is vital that the final version includes:

A commitment by all donors to increase the current amount of aid that goes to least developed countries and ensure that at least 20% of aid is allocated to the improvement of basic social services like education, health care, water supplies and sanitation. Aid will make the greatest impact if it is spent on the poorest people. Currently, only 22.4% of bilateral overseas development aid (ODA) goes to the least developed countries in the world.[2] Donors not only need to improve this amount dramatically, but they also need to live up to the commitments they made in 1995 at the World Summit for Social Development, where they pledged to spend 20% of ODA on basic social services in developing countries. Without movement in both areas, there is little hope that aid will move from being in the business of politics to being in the business of poverty reduction.

It is also vital that the final declaration is more ambitious on:

VII Reducing tied aid: The draft declaration has extremely weak text on this issue, and no specific indicator. We demand that it commit donors to fully untie all aid, including food aid and technical assistance, to all developing countries in the next five years.

Currently, around 40% -45% of total bilateral aid remains tied. It has been clearly documented that tying aid raises the cost of many goods, services and works by 15% to 30% on average, and by as much as 40% or more for food aid. The OECD calculated on this basis that the direct cost of tied aid in 2002

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reduced the actual value of total bilateral aid by as much as USD 5 to USD 7 billion in 2002.[3]

VIII i. Enhancing country ownership: Strengthening national ownership over development policies and procedures is essential to enhancing aid effectiveness. Indeed, national ownership based on strong civil society participation is a preliminary condition for all donor harmonization and alignment activities. A process of harmonization and alignment without real ownership could represent a further encroachment by donors on national policy-making.

ii. Currently, the Poverty Reduction Strategy Paper (PRSP) one of the principle instruments for facilitating greater ownership is not delivering results, as World Bank and IMF evaluations have demonstrated. [4] The current draft declaration does not indicate any donor responsibility to create the conditions for Poverty Reduction Strategy Paper process to work better. Part of the problem is that donors have not sufficiently adapted their programs to support PRSP priorities. In light of this, the declaration should commit donors to transforming their funding systems and modalities to support country PRS processes and systems, rather than the other way round, which has too often been the case up until now.

iii. Donors need to draw their conditions from national poverty reduction strategies, which have been produced in a participative manner. However, where this is not possible, the declaration should commit donors to setting conditions in a broad and consultative forum, where multilateral and bilateral donors are present, alongside civil society, government and parliamentarians. All donor conditions must be made public so that vital parliamentary and civil society oversight and input can be ensured.

iv. In addition, the declaration should commit donors to a set of ambitious targets for reducing the overall number of donor imposed conditions on developing countries. In order to ensure this, the declaration should call on donors to produce an annual report charting their progress on reducing conditionality. Current research, including the OECD DAC survey on aid harmonization (2004) indicates that donors have made very little movement in this area, despite it being a key commitment in the Rome Declaration on Harmonization in 2002.

v. Finally, the declaration must include a call for an end to all harmful economic policy conditionality. If the governments and people of poor countries are to have control over their future, and if aid is to be an effective tool for

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poverty eradication, donor imposed economic policy conditionalities, such as trade liberalization, deregulation, fiscal austerity and privatization must be abandoned.

IX i. Strengthening Capacity: The declaration puts the responsibility for capacity strengthening on Southern countries. The declaration should commit donors to ensuring that they will fund the capacity building needs of partner countries commensurate with meeting the Millennium Development Goals (MDGs). Nearly all of the regional workshops held by the OECD DAC highlighted the dire need for greater capacity building in developing countries. Support for capacity developments should be delivered according to needs identified by host governments and civil society organizations and not donors.

ii. The declaration should be stronger in pressing for a reduction in the use of parallel structures to manage and implement donor projects, given the evidence that this weakens capacity and distorts incentives and accountability in the public sector. This should not be contingent on partner countries 'meeting acceptable levels of performance'. The declaration should commit donors to the use of Project Implementation Units only in exceptional circumstances, and agree to a 75% reduction in the use of PIUs by 2010.'

X i. Providing greater aid predictability: The declaration should commit donors to delivering all aid pledges in full and within a defined timeframe. A target should be set for 100% on-schedule disbursements of planned aid by 2010. The declaration also needs to provide a clear target of how much aid should be planned and committed over a multi-year framework by donors in the next five years, rather than leaving this to monitoring over time. Currently, only 70% of ODA pledged is actually delivered. ODA flows are highly volatile: four times more, on average, than recipient countries' GDP.[5] Donors need to work towards ensuring far greater stability of aid flows in the near future, examining disbursement issues, donor budget procedures and the impact of conditionality on aid flows. Importantly, donors need to ensure appropriate safeguards are in place to avoid donor harmonisation practices do not result in further aid volatility.[2]

ii. Finally, donors need to ensure that their funding is sufficiently adaptable to partner country needs.

Donors need to ensure that there is greater flexibility for aid increases to help partner countries respond adequately to external and internal shocks.

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XI Corruption: The declaration should commit all donors and partner countries to sign and ratify the United Nations Convention against Corruption by 2005.[6] Corruption is a function of both donor and recipient activities and is a major obstacle to greater aid effectiveness diverting funds intended for development, undermining a government's ability to provide basic services, feeding inequality and injustice, and discouraging foreign investment.

XII i. Mutual Accountability: Finally, the declaration will be of little merit, if like its predecessor, the Rome Declaration, donors and developing countries are not held to account for implementing its agenda. A new framework of mutual accountability needs to be set up, both at the country and international level. At the country level there is a real need for a set of country targets to be agreed upon between donors, governments and civil society with the aim of improving the quality of aid and accelerating its disbursement. The matrix should be regularly monitored and effective sanctions imposed on donors who fail to meet their commitments.

ii. At the international level there is a critical need for an independent international structure, which enables developing countries to hold donors to account. This should be based on internationally agreed time-specific targets, which are regularly monitored with civil society participation and publicly reported on. This structure could be housed in existing regional or international institutions which are owned by developing country governments, such as NEPAD. Alternatively, it could be housed under the UN's structures in the form of a UN ombudsman on aid effectiveness.

We demand that these recommendations are included in the final version of the declaration. These steps are essential if we are to create a poverty-focused aid system which will meet the needs of poorer people.

Civil society groups plan to increase their roles in monitoring aid spending and encouraging public debate about aid performance and impact.

### **Signatories**

Afrodad, Zimbabwe ( ActionAid International, UK ( Asia Pacific Mission for Migrants, Hong Kong ( BanglaPraxis, Bangladesh ( Basic Caritas Cameroun ( BOND, UK ( Catholic Institute for International Relations (CIIR), UK ( CBRM, Italy ( Cordaid, Netherlands ( Coopération Internationale pour le Développement et la Solidarité (CIDSE) ( Development Services International/

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Afro-European Consortium ( European Network on Debt and Development (EURODAD) ( Health Unlimited, UK ( IBON Foundation, Philippines ( LOKOJ, Bangladesh ( OIKOS - Cooperação e Desenvolvimento, Portugal ( Oxfam International ( Pacific Asia Resource Center (PARC), Japan ( Philippine AidWatch Network, Philippines ( Reality of Aid, Global Network ( RIFONGA, Benin ( Save the Children UK ( Tearfund, UK ( Trocaire, Ireland ( World Vision UK ( World Vision, Germany(

**Notes:**

[1]OECD DAC, Second Consultative Draft of the Paris Declaration on Aid Effectiveness 2005

[2]OECD DAC Untying ODA progress report 2004

[3]Draft Report on Aid Effectiveness for the Second High-Level Forum, OECD DAC 2004

[4]IMF Independent Evaluation Office, Report on the Evaluation of Poverty Reduction Strategy Papers (PRSPs) and the Poverty Reduction Growth Facility (PRGF), May 2004. World Bank, Operations Evaluation Department ,The Poverty Reduction Strategy Initiative: An Independent Evaluation of the World Bank's Support Through 2003, 2004

[5]International Working Group on Innovative Financing Instruments Report December 2004

[6]The UN Convention on Corruption was adopted by the General Assembly of the United Nations on 31 October 2003 at United Nations Headquarters in New York (Resolution 58/4). It is open for signatures until 9 December 2005, in accordance with article 67 (1) of the Convention.

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## APPENDIX III

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### **Civil Society Comments to the High Level Forum, Joint Progress towards Enhanced Aid Effectiveness Paris, February 28th - March 2, 2005**

**Antonio Tujan, Jr. Chairperson, Reality of Aid Network**

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Chairman Mr. Koos Richelle and Mr. Ralph Oberhauser, distinguished participants to this Forum,

Allow me first, on behalf of CSOs, to express our gratitude to the organizers of this High Level Forum on Aid Effectiveness for providing a process for Civil Society participation through a series of consultations and finally participation in the Implementation Forum and the Ministerial itself. This is a distinct advance in terms of governance and participation in the aid system for CSOs who contribute to development cooperation in terms of strengthening people-to-people cooperation and in directly supporting various aspects of official development partnerships.

At a consultation earlier in February, there were more than 15 recommendations that were developed by participating civil society organizations. These have since been put into an NGO Statement that is being circulated and available for your perusal. Since I have limited time, let me present just a few of these views and recommendations.

Our organizations believe that this Forum and the *Paris Declaration* are important and much needed to achieve maximum results from relatively limited

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development financing. However, in the view of civil society, the current draft of the *Paris Declaration on Aid Effectiveness* fails to go far enough in tackling the fundamental obstacles that prevent aid from reaching those people who need it most. The *Declaration* fails to address such issues as priority to the most needy in aid allocations, meaningful stakeholder participation in Poverty Reduction Strategy Paper (PRSP) processes, donor imposition of policy conditionality, and fully untying aid.

Representatives of donor and partner countries must be bolder both in vision and commitments if there is to be any hope of creating a new aid architecture that will help us achieve the United Nation's Millennium Development Goals by 2015. NGOs consider that the good principles in the draft *Declaration* cannot really be put into practice without a profound reform of the aid regime.

Among others, this *Declaration* must therefore include:

- a) More democratic governance of the International Financial Institutions.
  - b) A commitment by all donors to increase the current amount of aid that goes to Least Developed Countries and ensure that at least 20% of aid is allocated to the improvement of basic social services like education, health care, water supplies and sanitation.
  - c) A commitment by all donors to fully untie all aid, including food aid and technical assistance, to all developing countries in the next five years.
  - d) Strengthening national ownership based on strong civil society participation as a preliminary condition for all donor harmonization and alignment activities.
  - e) Donor responsibility to create the conditions for Poverty Reduction Strategy Paper processes to be more inclusive and country-led, transforming funding systems and modalities to support country Poverty Reduction Strategy processes and systems, rather than respond to donor conditions, which has too often been the case up until now.
  - f) End all harmful economic policy conditionality; set ambitious targets for reducing the overall number of donor imposed conditions on developing countries; and produce an annual report charting their progress on reducing conditionality.
  - g) Meeting all donor aid pledges in full and within a defined timeframe and assuring that funding is sufficiently adaptable to partner country needs. A target should be set for 100% on-schedule disbursements of planned aid by 2010.
  - h) A new framework of mutual accountability needs to be established, both at the country and international level. At the country level there is a real need for a set of country targets to be agreed upon between donors, governments and civil
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society with the aim of improving the quality of aid and accelerating its disbursement. This matrix should be regularly monitored and effective sanctions imposed on donors who fail to meet their commitments.

- i) At the international level, there is a critical need for an independent international structure, which enables developing countries to hold donors to account. This should be based on internationally agreed time-specific targets, which are regularly monitored with civil society participation and publicly reported upon.

These recommendations must be included in the final version of the *Declaration*. We believe that these steps are essential to make aid truly effective and focused on reducing poverty, meeting the needs of the poor as genuine participants in the process of building their lives and their democratic societies.

For our part, civil society organizations, including The Reality of Aid, a global network of platforms of development organizations in more than 50 countries, resolve to increase our roles in monitoring aid spending and encouraging public debate about aid performance and impact.

*(This input was made by Reality of Aid Chairperson, Antonio Tujan, Jr. on behalf of approximately 15 civil society organizations during the High Level Forum on Aid Effectiveness in Paris)*

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