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REFORM OF THE INTERNATIONAL AID ARCHITECTURE: A ROLE FOR THE COMMONWEALTH?

Paper for the Commonwealth Secretariat*

Commonwealth Secretariat
Marlborough House
London SW1Y 5HX

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EXECUTIVE SUMMARY

This paper presents a series of options for reform of the international aid architecture as well as a number of potential roles for the Commonwealth for consideration by the Ministers of Finance meeting in Colombo, Sri Lanka, 12-14 September 2006. The paper provides background on the current state of the aid architecture, including its size and the major international efforts at reforming the system.

The secretariats of the Commonwealth and Francophonie organised three workshops, one in London, UK, one in Dhaka, Bangladesh, and one in Yaoundé, Cameroon. The aim of these workshops was to engage civil servants from the Ministries of Finance and representatives of civil society in recipient countries in a debate about the reform of the aid architecture. These workshops were organised in recognition that these opinions are rarely heard in this debate. This paper draws on the outcomes from these workshops when presenting the possible options for reform and the role of the Commonwealth in this reform process.

The following options for reform of the international aid architecture are presented for consideration by Ministers and the possible implications explored:

- **Option A** – Do nothing;
- **Option B** – Rely on Harmonisation and Alignment;
- **Option C** – Harmonisation and Alignment Plus;
- **Option D** – Multilateralism;
- **Option E** – Empower Recipient Governments.

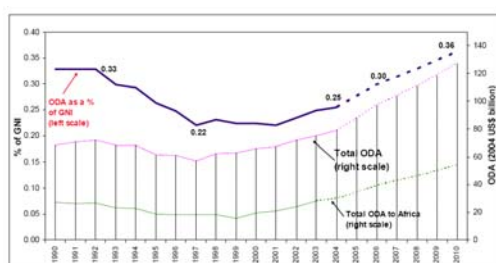
The following possible roles for the Commonwealth in promoting reform of the aid architecture are presented for consideration by Ministers:

- keep the issue on its agenda;
- keep the issue on its agenda, but ask the Secretariat to give the issue priority in its work plan;
- agree a paragraph of the communiqué;
- set-up a task force with specific terms of reference to examine the issues;
- set-up a more political Commission to examine the issues.

I. INTRODUCTION

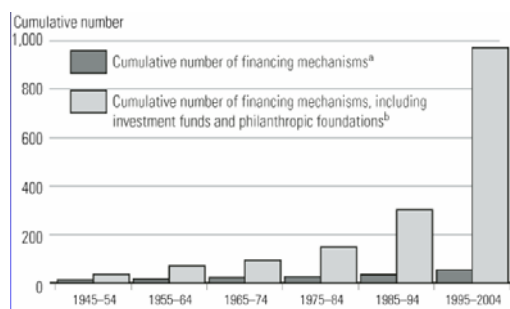
The aid industry is undergoing significant change. On the one hand, volume is rising - from around US\$60 billion a year throughout the 1990s to US\$100 billion in 2005 and a projected US\$130 billion by 2010 (Figure 1). On the other hand, the architecture is becoming ever more complex, with a proliferation of agencies and special purpose vehicles. UNDP calculate that at global level there are now more than 1000 financing mechanisms (Figure 2).

Figure 1: DAC Members' net ODA 1990 - 2004 and DAC Secretariat simulations of net ODA 2006 - 2010



Source: OECD/DAC

Figure 2: Multiplication and Diversification of International Financing Mechanisms

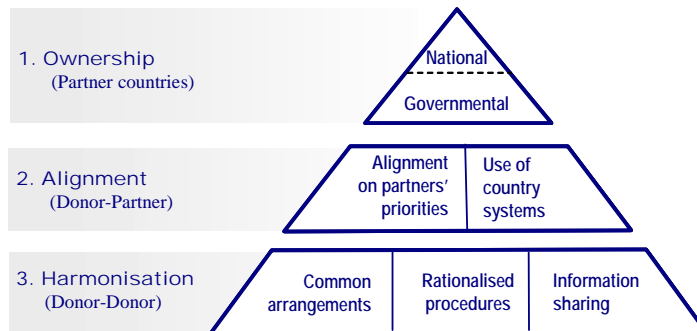


Source: Kaul and Conceição 2006

2. Donors, recipients and independent observers all agree that the system is too complicated and imposes high transaction costs on all parties. Box 1 provides some examples which illustrate this vividly. Put simply, the architecture is not ‘fit for purpose’.

3. So far, the main response to the problem has been to try and operationalise the ideas of alignment and harmonisation: in other words for donors to follow government plans and priorities (alignment) and to work together in that process (harmonisation). The ideas are illustrated in Figure 3. The Development Assistance Committee of the OECD has taken the lead, and in April 2005 sponsored the Paris Declaration on Aid Effectiveness. This was signed by 35 donor countries, 26 multilateral donors, 56 recipients and 14 civil society observers. There are specific targets, reproduced in Annex 1. For example, one target states that two thirds of all aid should be provided in the context of programme aid approaches, and another that 40 per cent of all donor missions should be joint with others.

Figure 3: Harmonisation and Alignment



Source: OECD/DAC

4. The Paris Declaration will not be easy to implement, but even if it is, will it be enough? Should there also be systematic thinking about the overall structure of the industry and how it might be rationalised? If so, should the Commonwealth, a strong group of like-minded governments, play a role, or even take the lead?

Box 1: Examples of the complexity of the aid system

- The WHO has 4600 separate agreements with donors and has to provide 1400 reports to donors each year.
- Uganda has over forty donors delivering aid in country. The Government of Uganda's own figures show that it had to deal with 684 different aid instruments and associated agreements between 2003/04 and 2006/07 for aid coming into the central budget alone
- A 14-country survey by the OECD and the World Bank showed an average of 200 donor missions per year, three quarters of these by a handful of donors (the 'chronic travellers'). Cambodia and Vietnam received 400 missions each, Nicaragua 289, Bolivia 270, Bangladesh 250.
- There are 90 global health funds.
- In Vietnam, 11 UN Agencies provide between them only 2 per cent of aid.
- St. Vincent, population of 117,000, was asked to monitor 191 indicators and Guyana 169 indicators on HIV/AIDS.
- The number of registered NGOs in Banda Aceh rose from 80 before the Tsunami to 180 by June 2005.

5. Some aspects of aid architecture are already on the agenda. For example, the 2006 Annual Meetings of the World Bank and IMF will consider governance reform to give developing countries greater voice. A report is also expected from the UN High Level Panel on System Wide Coherence, co-chaired by the Prime Ministers of two Commonwealth countries, Pakistan and Mozambique, along with the Prime Minister of Norway. These two initiatives suggest that there is an appetite for debate about some aspects of the future aid architecture.

6. Whether there is desire to address wider architecture issues, and what those issues might be, has been the subject of a project carried out jointly by the Commonwealth Secretariat and the Organisation Internationale de la Francophonie. A principal objective of this project has been to bring southern voices to bear on the debate. There have been three workshops, in London, Dhaka and Yaoundé, facilitated by the two organisations with the support of the Overseas Development Institute in London. The workshops have been attended by 73 senior officials and civil society representatives from 27 countries¹. Box 2 highlights the key questions addressed in the workshop.

7. This note reports on discussion at the workshops. More importantly, it asks whether there is scope for a Commonwealth initiative on aid architecture.

Box 2: The key questions addressed in the workshops included:

- What should be the distribution of aid between countries, and how should recipient countries be selected? Where do middle-income countries fit in?
- What are the main similarities and differences between bilateral and multilateral aid institutions? What are the comparative strengths and weaknesses of each? Do they complement or overlap in their activities?
- What should be the balance between multilateral and bilateral aid?
- How many aid agencies should there be, especially in the multilateral field? Does the alignment agenda mean that the world only needs one large agency, to channel money into government budgets? Or is there some merit in diversity and a degree of competition?
- What should be the role of the multilateral development banks?
- What should be the role of vertical funds, like the Global Fund to fight AIDS, Tuberculosis and Malaria (GFATM)? Do vertical funds genuinely provide additionality (meaning that they must not displace existing programmes, but instead add new activities or coverage), including via contributions from the private sector? How can they be coordinated with other aid mechanisms?
- How can the quality of aid agencies be measured and improved? How good are the indicators currently used? What is the role of multi-donor evaluations, as for example that undertaken by the Tsunami Evaluation Coalition?
- How can accountability within the aid system be improved? In particular, what is the role of mutual accountability (mutual peer review, devices like the African Partnership Forum)?

II. THE CURRENT AID ARCHITECTURE: CHARACTERISTICS AND CONSTRAINTS

8. The complexities of the aid system are well known, but there are some remarkable features: a large number of agencies, a high proportion of bilateral aid, high proportion of technical assistance, large role of private flows and NGOs.

9. The system of official aid agencies is made up of over 40 bilateral agencies, 20 global and regional financial institutions, 15 UN system agencies and the growing number of vertical

¹ Background documents to these workshops can be found at www.odi.org.uk/PPPG/cape/what_we_do/aid_effectiveness/engaging_in_debate.html or from <http://www.thecommonwealth.org>

global funds. Bilateral aid agencies contribute nearly 70 per cent of the total aid disbursed, with multilateral agencies contributing the remaining 30 per cent.

10. The pattern of aid differs by region:

- In 2003-2004, 35.8 per cent of total ODA by DAC members went to Sub-Saharan Africa; while the EC devoted 44.3 per cent of total ODA to that region; IFIs 43.1 per cent; and the UN system 37.7 per cent. In all these cases, ODA to Sub-Saharan Africa represented the largest regional component of all aid disbursed.
- According to the Human Development Report (HDR) 2005, ODA received per capita in 2003 (net disbursements) was US\$3.4 in East Asia and the Pacific; US\$4.3 in South Asia; and US\$9.9 in Latin America and the Caribbean; compared to US\$32.9 in Sub-Saharan Africa. This is equivalent to 0.5 per cent of the GDP in East Asia and the Pacific; 0.7 per cent of the GDP in South Asia; 0.8 per cent of the GDP in Latin America and the Caribbean; and 18.6 per cent of the GDP in Sub-Saharan Africa.
- The HDR also shows that Sub-Saharan Africa is the only region of the world where ODA as a percentage of GDP has increased from 1990 to 2003 (going from 12 per cent to 18.6 per cent). It has decreased everywhere else.
- Data shows aid to Asia falling sharply through the 1990s, but then recovering. Iraq accounts for a large share of the additional volume, but the figures seem to show recovery in both South Asia and the Far East. South Asia, however, includes Afghanistan, which explains most of the increase there. Of course, the tsunami will produce greatly increased figures for 2005: according to the Tsunami Evaluation Committee (2005) more than US\$14 billion was raised (c.f. US\$7 billion for all humanitarian aid in 2004). The Pakistan earthquake will also have an impact on the figures.

11. In the decade since 1993, DAC donors accounted for around 95 per cent of all international aid. A recent trend not yet picked-up in the DAC statistics is the emergence of a significant number of non-DAC, in particular Asian donors, especially evident in the aftermath of the tsunami. For example, Korea and Turkey reported figures larger than two existing DAC members in absolute terms for 2004. In addition, Korea is aiming to reach US\$1 billion by 2010. China has committed to provide US\$10 billion in concessional loans and preferential export buyer's credit within the next three years. India is considering increasing its provision to Africa roughly ten fold the levels in 2004/05. It is unclear though what proportion of either the Chinese or Indian increases would qualify as concessional under DAC definitions. ODI research shows that non-DAC donors, most of them Asian, provided up to 12 per cent of humanitarian aid between 1999 and 2004, with the figure peaking at over US\$700 million in 2001. China has become the third largest donor of food aid in the world.

12. There is no recognisable "architect" for the aid system as a whole, despite the fact that over 70 per cent of it is financed by the G8 and that policy influence is still largely aligned with financial contributions, even where formal voting control is not. Few large donors actively coordinate their own inputs and requirements across agencies; much less develop a disciplined collective approach to these choices with other donors. Decisions about replenishing funding to multilateral institutions remain, on the whole, disconnected sets of context-specific negotiations. They also usually yield marginal adjustments to the previous base.

13. This situation makes for great stability, or looked at differently, inertia. Today, the international aid system consists of a loose aggregation of more than 90 aid agencies, and it continues to expand. The creation of new funding mechanisms has increased in recent years: as many were created in the past 10 years as were formed in the prior five decades. The latest newcomers include the Millennium Challenge Corporation (MCC), launched by the USA, the GFATM, and the pilot IFF for Immunization.

14. There are many explanations as to why the aid system has grown the way it has, and why donors and recipients behave the way they do. All actors respond to political pressures and to bureaucratic incentives. Complex ‘games’ are being played in the negotiations between donors and recipients, in which each side tries to achieve its objectives.

15. The rationale for having aid agencies at all – whether bilateral or multilateral – as against relying on direct money transfers between donor and recipient treasuries, is linked to the agencies’ role as mediators between the different preferences of different donor and recipient constituencies. If there were full and costless information, trust and mutual accountability, this argument goes, we would not need such intermediaries. Their know-how, only a small part of which is proprietary, could be made available in other forms on the open market and much simpler and more stable arrangements for resource transfer could be designed and enforced.

16. Through this lens, multilateral agencies have distinct advantages. Though they account for only 30 per cent of total ODA disbursed, multilateral agencies allow a channel for collective action which contains competition or conflict among donors. They are characterised by better balanced, more effective aid allocations – which enables countries that would otherwise be donor “orphans” to have access to resources. While it is important to recognise that multilaterals have not always promoted the “right” policy to foster development and combat poverty in poor countries, they have played an important role in strengthening the legitimacy and credibility of unpopular programmes (e.g. economic reform) that nonetheless have produced positive results. Given economies of scale and scope, they can significantly reduce the costs and increase the credibility of policy-relevant information, and they have broader and deeper capacity for research, advice and development innovation at the service of developing countries. Multilateral agencies also provide recipients with a voice in decision-making, however limited that may be.

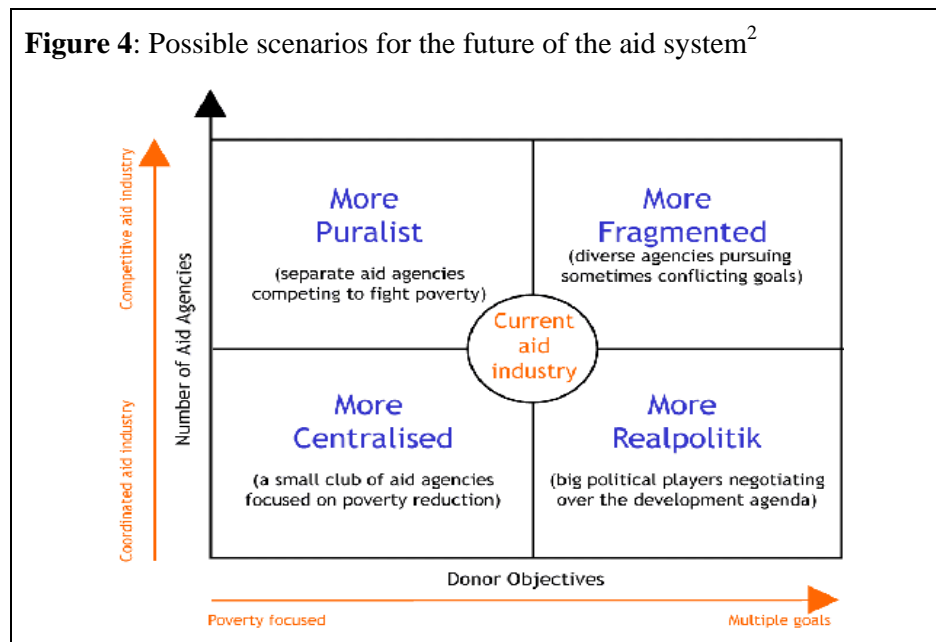
17. Bilaterals, on the other hand, have some comparative advantage as well. Because of their historical engagement with countries and/or regions over time, they have a deeper knowledge and a better feel for the politics of change in-country. Bilaterals are also believed to have greater coherence of aid with non-aid policies like trade, security, and migration. In some cases, they may also have greater flexibility than multilaterals, allowing them to (re)act with greater speed to certain situations.

18. As the tensions between different views on the appropriate architecture are played out in the debate about reform, four underlying factors can be identified, some ongoing, and some new.

- *Multiple foreign and security policy objectives*, that may or may not be bundled with anti-poverty goals, with no common weighting system.
- The continued existence of *institutional barriers* insulating aid programmes, to different extents, from hard budget constraints and political pressure attached to them.

- *Reduced willingness, or ability, to use aid in its current form* at both ends of the recipient spectrum: more advanced countries reject foreign intrusion; weaker countries badly need aid but cannot demonstrate the ability to use it.
- *Symbiotic relationships with private and voluntary organisations*, partly funded by official aid, but competing with it for taxpayer attention

Figure 4 shows the four possible futures for the aid system:

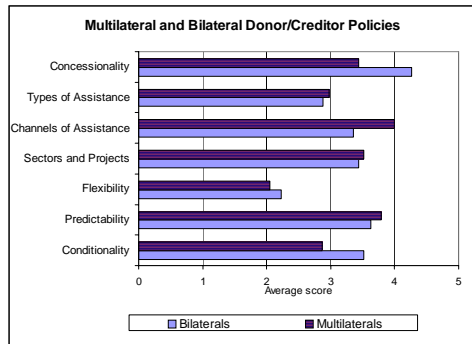


19. More concrete discussions about donor performance at country level, which shed some light on some of the more technical aspects of the issue of comparative advantage, can be found in different reports published by Northern development NGOs. Oxfam GB and Debt Relief International, for example, have attempted to develop indicators of donor behaviour which could assist recipient governments in assessing the relative costs and benefits of dealing with a series of bilateral and multilateral aid agencies.

20. The Debt Relief International (DRI) exercise was more comprehensive. It was based on its capacity building activities in 12 HIPC countries in Sub-Saharan Africa. DRI has been working with developing country governments receiving debt relief to develop a methodology for assessing the quality and performance of assistance provided by different donors, focusing on the characteristics of their policies and procedures. The key policy factors include concessionality, types of assistance, flexibility, predictability and conditionality. For procedures, the main areas covered include disbursement methods, schedules and procedures, procurement rules and coordination. The preliminary results are shown in Figures 5 and 6 below.

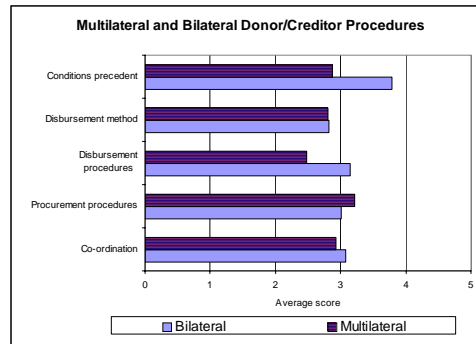
² This graph was created by Tim Harford, an economist at the World Bank-IFC Private Sector Vice Presidency, with inputs from Andrew Rogerson. It was first used in the World Bank-IFC "Private Sector Development" homepage in May 2005 to encourage people to vote on the future of aid.

Figure 5: Ranking of donors on policy criteria



Source: Debt Relief International

Figure 6: Ranking of donors on procedures criteria



Source: Debt Relief International

21. These efforts represent important steps forward in promoting mutual accountability. However, their narrow focus on technical matters mostly related to financial management and general policy concerns leaves room for further discussion on the wider implications of comparing donor performance and comparative advantages at the country level. Box 3 shows the results from an exercise at two of the workshops attempting to get a more country-level perspective. This exercise asked participants to identify best practice criteria for different donors and then to rank donors with which they were familiar against these criteria.

Box 3: The workshop participants in Dhaka and Yaoundé were asked to evaluate the aid system by undertaking an exercise to identify the strengths and weaknesses of different agencies. The judgements were necessarily subjective, but produced challenging answers.

Dhaka Workshop	Yaoundé Workshop
The World Bank generally scored highly for scale, technical expertise, efficiency and sector focus, but poorly for terms of finance, consultation, flexibility and transparency. It was also thought not very cost-effective.	The World Bank/IDA scored highly on level of financing, concessionality, budget support, predictability, untying of aid, alignment, efficiency and long-term impact. It scored poorly on conditionality, level of bureaucracy, transparency and flexibility
UNDP scored highly in transparency, and responding to national priorities, but not in efficiency or providing large scale finance.	UNDP scored well on untying, long-term impact and concessionality, but poorly on bureaucracy and speed of disbursement.
The Asian Development Bank scored highly for scale, sector focus, customer-friendliness and regional expertise, and less well for terms of finance, flexibility, response speed, mutual respect and open-mindedness.	The African Development Bank scored highly on level of financing, accountability, concessionality, transparency and long-term impact, but poorly on disbursement speed, flexibility, transparency, efficiency, bureaucracy and budget support.
The EU scored highly on mutual respect and on size, but poorly on speed and flexibility.	The EU scored highly on level of financing, accountability,

	concessionality, untying of aid, access for CSOs to aid and long-term impact, but poorly on conditionality, bureaucracy, disbursement speed, respect for national systems and ownership.
DFID scored highly on efficiency, terms, orientation to national priorities, speed and flexibility and poorly on scale and ability to fund infrastructure.	DFID scored highly on alignment, predictability and speed of disbursement. It did not score poorly on any of the characteristics identified.
Japan scored well on being customer-friendly, expertise and predictability, but poorly on poverty orientation and flexibility.	Agence Française de Développement scored highly on alignment, predictability and speed of disbursement. It did not score poorly on any of the characteristics identified.
USAID scored well on emergency response, but poorly on most other criteria.	

22. Exercises like those of DRI and the Commonwealth/Francophone workshops can provide insights into country preferences for donor characteristics. When pulled together they suggest the potential for developing a charter of best practice for donor behaviour. Box 4 has a synthesis of the donor characteristics valued by workshop participants. Annex 2 contains a mutual accountability matrix developed by DRI and provides a more technically focused set of best practice criteria.

Box 4: Developing a Charter of Donor Best Practice.

This box draws together the best practice characteristics produced at the Dhaka and Cameroon workshops by participants. It groups them by the number of groups which agreed that the characteristic was an important one to look for in a donor.

Chosen by Five Groups

Alignment
Flexibility
Transparency

Chosen by Four Groups

High Concessionality
Participatory approach
Predictability
Speed of Disbursement
Volume of financing

Chosen by Three Groups

Efficiency/ cost effective
light bureaucratic procedures
Untying of aid

Chosen by One Group

Able to fund infrastructure
Access for CSOs to aid
Accountability
Budget support
Consistency of donor policy over time
Customer friendly
Decentralisation of aid-management
Emergency response
Environment. Friendly
Internal governance
Knowledge banks
Light on conditionalities
Open-minded
Outcome driven
Ownership
People-oriented

Chosen by Two Groups	Pro-poor
Good Monitoring	Rights-based
Knowledge transfer	Sector focus
Regional focus	Strengthening capacities
Technical expertise	Use of national expertise
	Long term impact
	Long term projects
	Mutual respect

III. OPTIONS FOR THE FUTURE AID ARCHITECTURE

23. The workshop discussions provided a foundation for debating changes to the aid architecture. In all the workshops, participants emphasised the importance of implementing the Paris Declaration on harmonisation and alignment. The role of civil society, as an honest broker and independent advisor, was also underlined.

In London, practical proposals included:

- A single UN Development Authority, funded by a trust fund for the Secretary General of the UN
- Changes to the voting structure in the World Bank
- Using the EU partnership structures in the World Bank
- Developing country presence on OECD-DAC's Development Committee
- Independent monitoring group at country level
- World Aid Report (produced by a donor co-ordination secretariat)

In Dhaka, proposals included:

- National level Paris agreements and 10-year partnership agreements between donors and recipients
- Countries to request multi-donor evaluations and/or an independent evaluation body
- Mutual peer review programmes
- Press for voting reforms in BWIs (Singapore)
- Asia to ask for observer status at ACP
- ESCAP to organise Asia development forum
- Support to the UN reform process (nationally and regionally)

24. In Yaoundé, priorities were very much focused on actions needed by both donors and recipients to implement harmonisation and alignment objectives, but also included:

- The UN should be responsible for setting all norms and standards for co-ordination, harmonisation and delivery of aid
- Promote mutual accountability and ensure predictable aid flows for completion of projects and programmes and set measurable targets

25. Putting these ideas and others together, it seems that there are five options, each of which has advantages and disadvantages. The options are summarised in Box 5:

<p>Box 5: Options for reform of the international aid architecture</p>
<p>Option A – Do Nothing</p> <p>Features Slow implementation of Paris Declaration Targets; Creation of more vertical funds and special purpose vehicles.</p> <p>Advantages Easy.</p> <p>Disadvantages Incoherence of aid system remains, with high transactions costs for all parties.</p>
<p>Option B - Rely on Harmonisation and Alignment (H&A)</p> <p>Features Gradual implementation of Paris Declaration Targets leads to better H&A at country level; New vertical funds and special purpose vehicles continue to be created; DAC remains largely a bilateral donor club.</p> <p>Advantages Basic building blocks already in place, with monitoring of progress against Paris Declaration Targets; leaders able to satisfy constituencies or raise new money by creating new vehicles; DAC functions effectively and is already opening to non-DAC observers.</p> <p>Disadvantages Number of aid agencies continues to be large and rising; strong institutional incentives make implementation of Paris Declaration Targets inevitably slow; few opportunities for mutual accountability; Southern voices have difficulty in being heard; recipient country governments have difficulty managing aid donors.</p>
<p>Option C – Harmonisation and Alignment +</p> <p>Features Recipient countries take the lead in driving H&A; donor numbers in each country controlled, with more joint programmes and offices; DAC should become open to wider membership, including non-OECD member observers; national level Paris agreements and 10-year partnership agreements agreed; mutual peer review programmes implemented; independent monitoring group at country level begins and countries request multi-donor evaluations; publication of a World Aid Report considered; the UN sets norms and standards for co-ordination, harmonisation and delivery of aid.</p> <p>Advantages Recipient countries have stronger voice, or try to; self-denial by donor agencies leads to some cost savings; DAC has the infrastructure to be a forum for wider debate; promotes mutual accountability and ensures predictable aid flows for completion of projects and programmes and sets measurable targets.</p> <p>Disadvantages Changes rely largely on goodwill and negotiating competence; still a large number of aid agencies, and high transaction costs; developing country voices in the aid architecture debate are difficult to mobilise.</p>

Option D - Multilateralism

Features A determined effort is made to simplify the aid system while retaining diversity, by increasing the share of aid channelled through the World Bank, the UN, the MDBs and the EU; UN and IFI governance reform is given high priority and a single UN Development fund formed; a forum such as a reformed and strengthened ECOSOC becomes the principal arena for discussion of aid issues³.

Advantages Radical simplification of aid system, leading to streamlining and lower transactions costs; easier for recipient countries to manage; recipient voices more easily heard; mutual accountability becomes easier.

Disadvantages Difficulty of reaching agreement on UN reform; equal difficulty in making quick decisions in a multilateral context; resources may fall if donors are not satisfied on efficiency and transparency.

Option E – Empower Recipient Governments

Features Developing countries are equipped with better information about the relative performance of aid agencies, the result of independent monitoring and evaluation; they are then given more say in the choice of which agencies act as suppliers of aid, perhaps through vouchers or similar; a forum such as a reformed and strengthened ECOSOC becomes the principal arena for discussion of aid issues.

Advantages Rational allocation system possible; recipient countries making their own choices of suppliers of aid; accountability easy to manage.

Disadvantages Difficult to establish universally accepted and independent benchmarks of performance; high level of audit and accountability needed to avoid rent-seeking; resources may fall if donors are not satisfied on efficiency and transparency.

26. **Option A** is less of an option and more of a scenario of what is likely to happen if governments make little effort towards the implementation of the Paris Declaration. International pressures, including G8 processes and initiatives by bodies like the Gates Foundation, will lead to the creation of new funds and programmes. UN reform is probably slow and piecemeal in this model. The planned governance reform of the World Bank and the IMF makes only limited concessions to the demands of developing countries. The costs and benefits are easy to imagine: the status quo is always an easy option, but leaves the high inefficiencies of the present system untouched.

27. **Option B** is the most likely outcome if governments make an effort and Paris is implemented at the top end of the range of expectations, but with other reform efforts making little progress. As in the previous scenario, new funds continue to be created. The achievements here are not negligible and nor are they easy to win: implementation of Paris will require sustained pressure. In this model, the DAC is likely to play a major role, with some but limited participation by developing countries. Mutual accountability remains largely a rhetorical ambition and Southern voices generally have little weight.

28. **Option C** represents an extension of the Paris Declaration, in which developing countries themselves decide to play an assertive role, if necessary calling the donors' bluff.

³ As set-out in paragraph 136 of the outcome document of the High-level Plenary Meeting of the General Assembly of September 2005

Some will wish to reduce radically the number of donors, as India has done. Others will insist on donors working more together, sharing offices and if possible allowing others to lead in particular sectors. As they do this, countries will expect to be heard more frequently in international meetings, though those that succeed in the project are likely to be relatively better-managed states. The implementation of Paris will always be difficult for fragile states, despite rhetoric by donors about ‘shadow alignment’. There are many difficulties and risks associated with this approach, not least how to manage unequal power relationships in aid. In this connection, the legal procedures for arbitration and appeal in the Cotonou Convention bear closer examination.

29. **Option D** sets out to tackle head-on the imbalance between bilateral and multilateral aid. It recognises that the harmonisation and alignment agenda is necessary only because there are so many aid agencies. It responds to the slogan ‘*don’t just harmonise, multilateralise*’. Though there are many advantages to this model, especially in saving transactions costs and in giving recipient countries greater voice, it is dependent on thorough-going reform of the multilateral system, in such a way as to achieve both voice and efficiency. The work of the High Level Panel on UN System-Wide Coherence is a good test of the feasibility of this approach. If it produces strong recommendations which can be implemented quickly, then Option D has good potential for success. The reform of the governance of the BWI is also a test. If these tests are failed, then multilateralisation is unlikely to succeed.

30. **Option E** is speculative but may represent a long-term future for aid and work in this area is beginning to happen, for example the DRI work referred to in paragraph 20. In this model, the overall global aid budget is allocated, through a voucher system, to recipient countries rather than aid agencies, and it is the countries which decide which agencies to use. Successful voucher systems depend on their being adequate supply and contestability, and are usually backed up by rigorous and independent monitoring and evaluation, on a whole range of performance indicators. Examples are league tables for schools and hospitals or certification systems for privately-provided services like nursery education in the UK.

31. Common to all of these options is the need to build the capacity of recipient governments to use the aid they receive more effectively to promote growth and developmental progress. This will require technical assistance and capacity building for governments as well as civil society and parliaments to monitor developmental progress.

32. There is no right or wrong model in this table. Each option offers both advantages and disadvantages. It is presented for discussion.

IV. WHAT IS THE ROLE FOR THE COMMONWEALTH?

33. As noted in the Introduction, there are discussions underway in different fora about different aspects of the aid architecture. The Commonwealth has both.

- An interest in the issues
- The capacity to help shape the debate

34. The interest in the issues is self-evident, given the range of donor and recipient member countries. The capacity to help shape the issues derives from the nature of change management in this sector as an exercise in collective action. Research on the conditions for change in global governance suggest that enabling conditions include a shared vision, a high

degree of trust, an understanding of mutual accountability, and an institutional structure to manage discussions and encourage change. In addition, it helps when all parties have an interest in success. The Commonwealth meets all these conditions.

35. What then are the options? The answer depends partly on which option is chosen from the previous set. At a minimum, the Commonwealth might content itself with monitoring progress against the Paris Declaration and providing assistance to countries which wish to strengthen their capacity to manage aid flows successfully. At a maximum, the Commonwealth could position itself in a position of leadership in the global action programme to reform aid architecture. This would obviously require both commitment and investment in a collective project.

36. In practical terms, the Commonwealth could decide to:

- keep this issue on its agenda, asking for regular reports from the Secretariat;
- as above, but also ask the Commonwealth Secretariat to give this issue priority in its work programme, including its technical assistance activities and the work of its associated bodies working in the research sector and with civil society;
- agree a paragraph of the communiqué, noting the importance of the discussion and urging progress in implementing the Paris Declaration, at the Annual Meetings and through the High Level Panel;
- set up a small task force with limited terms of reference, to prepare proposals for Commonwealth action broadly matching options B and C of the table in the previous section;
- set up a small task force with more ambitious terms of reference, to prepare proposals for Commonwealth action covering B and C in the table, but also D;
- set up a more political Commission to cover the same ground as in the previous paragraph.

37. Whichever of these options is taken, it is important to bring civil society into the conversation, as was done in the workshops.

38. There was also great benefit in the planning stage in working closely with the Organisation Internationale de la Francophonie.

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Paris Declaration Targets

OWNERSHIP		SUGGESTED TARGETS 2010
1	<p>Partners have operational development strategies: Number of countries with national development strategies (including PRSs) that have clear strategic priorities linked to a medium-term expenditure framework and reflected in annual budgets</p>	<i>75 per cent of countries have operational development strategies</i>
ALIGNMENT		SUGGESTED TARGETS 2010
2	<p>Reliable country systems: Number of partner countries that have procurement and public financial management systems that either (a) adhere to broadly accepted good practices or (b) have a reform programme in place to achieve these</p>	<p>(a) <i>PFM – half of partner countries move up at least one measure on the PFM/CPIA scale performance</i></p> <p>(a) <i>Procurement - One-third of partner countries move up at least one measure on scale used to assess performance of this indicator</i></p>
3	<p>Aid flows are aligned on national priorities (i.e. is reported on recipient government's national budget)</p>	<i>Halve the proportion of aid flows to the government sector that is NOT reported on partners' national budgets</i>
4	<p>Strengthen capacity by co-ordinated support consistent with partners' national development strategies</p>	<i>50 per cent of technical co-operation flows are implemented through co-ordinated programmes consistent with partners' national development strategies.</i>
ALIGNMENT		SUGGESTED TARGETS 2010
5	<p>Use of Country Systems (both PFM and procurement): Percent of donors and aid flows that use PFM and procurement systems in partner countries that either (a) adhere to broadly accepted good practices; or (b) have a reform programme in place to achieve these.</p>	<i>Depending on partner country's score on a given scale, a certain percentage of donors will use partner countries' PFM and procurement systems AND percentage of aid not channelled through PFM systems will be reduced</i>
6	<p>Strengthen capacity by avoiding parallel implementation structures: Number of parallel project implementation units (PIUs) per country.</p>	<i>Reduce by two-thirds the number of parallel PIUs per country</i>

ALIGNMENT		SUGGESTED TARGETS 2010
7	Aid is more predictable (i.e. disbursed to agreed schedules)	<i>Halve the proportion of aid disbursements that are NOT released according to agreed schedules in annual or multi-year frameworks</i>
8	Aid is Untied: Percentage of bilateral aid that is untied	<i>Continued progress over time</i>
HARMONIZATION		SUGGESTED TARGETS 2010
9	Use of common arrangements or procedures	<i>66 per cent of aid flows</i> are provided in the context of programme-based approaches
10	Encourage joint missions and shared analysis	<i>40 per cent of donor field missions are joint; and 66 per cent of country analytic work is joint</i>
MANAGING FOR RESULTS		SUGGESTED TARGETS 2010
11	Results-oriented frameworks: Number of countries with transparent and monitorable performance assessment frameworks to assess progress against (a) the national development strategies and (b) sector programmes	<i>Reduce the gap by one-third</i> - reduce the proportion of countries without transparent and monitorable performance assessment frameworks.
MUTUAL ACCOUNTABILITY		SUGGESTED TARGETS 2010
12	Mutual Accountability (i.e. partner countries to undertake mutual assessments of progress on agreed commitments on aid effectiveness)	<i>All partner countries</i> have mutual assessment reviews in place to ensure all parties are honouring commitments.

For more information visit: <http://www.aidharmonization.org/secondary-pages/Paris2005>

Debt Relief International's Indicative Mutual Accountability Matrix

Table 5.1 INDICATIVE MUTUAL ACCOUNTABILITY MATRIX		
POLICY AREA	African Government Objectives	Donor Objectives
Concessional	<ul style="list-style-type: none"> Seek grants in preference to loans and maintain minimum 35% (or higher) grant element Reject all export /suppliers/mixed credits 	<ul style="list-style-type: none"> Maximise grants rather than loans and offer loans with minimum grant element of 35% (or more) Do not offer export/suppliers/mixed credits
Amount of Assistance	<ul style="list-style-type: none"> Provide accurate/early forecasts of PRSP funding need Establish borrowing limit to maintain sustainable debt Strengthen legislation and institutional procedures to ensure all new external assistance is analysed and ratified in timely manner 	<ul style="list-style-type: none"> Provide sufficient resources to fund PRSP Ensure new lending is in compliance with government limits. Ensure government institutional procedures are followed for new external assistance
Type and Channel of Assistance	<ul style="list-style-type: none"> Maximise budget support through the establishment of a multi-donor budget support programme Negotiate maximum debt relief from all creditors Negotiate reduced technical assistance in favour of capacity building support 	<ul style="list-style-type: none"> Increase budget support and work with government to set up multi-donor budget support programme. Deliver maximum debt relief as additional budget funding Minimise technical assistance. Ensure TA projects include budget and time allocation for capacity building
Sectors and projects	<ul style="list-style-type: none"> Negotiate aid only for PRSP sectors, and within these sectors prioritise budget projects. Refuse stand-alone projects Reject donor ear-marking of sectors and projects 	<ul style="list-style-type: none"> Ensure donor country programmes are organised and classified around PRSP priority sectors and line ministries Refrain from financing stand alone projects Refrain from ear-marking sectors and projects
Flexibility	<ul style="list-style-type: none"> Establish early warning systems for tracking and analysing shock and report rapidly to donors on shocks 	<ul style="list-style-type: none"> Provide maximum possible resources to finance protection against external shocks, through multi-donor facility
Predictability	<ul style="list-style-type: none"> Provide clear medium-term expenditure and financing plans 	<ul style="list-style-type: none"> Provide government with projected commitments and disbursements for 3 to 5 years, in time for annual budget
Policy Conditionality	<ul style="list-style-type: none"> Negotiate minimal donor conditionalities. Seek donor flexibility in interpreting the implementation of conditions. 	<ul style="list-style-type: none"> Interpret flexibly the implementation of conditions to ensure that disbursements are not delayed or suspended if agreed PRGF/PRSP outcomes are basically on track
Policy Dialogue	<ul style="list-style-type: none"> Brief donors/creditors on policy updates and progress at semi-annual (or quarterly) meetings 	<ul style="list-style-type: none"> Participate in semi-annual (or quarterly) meetings with government
PROCEDURE AREA		
Conditions Precedent	<ul style="list-style-type: none"> Negotiate minimum conditions and monitor implementation on timely basis 	<ul style="list-style-type: none"> Reduce conditions precedent to legal opinion only and monitor implementation in timely manner
	<ul style="list-style-type: none"> Streamline parliamentary approval processes which are causing significant delays 	<ul style="list-style-type: none"> Minimise cross-financing conditions, whenever possible
Disbursement Method	<ul style="list-style-type: none"> Seek disbursement of funds through direct cash payments, rather than reimbursement claims Establish mechanism to determine value of all aid-in-kind, especially food aid 	<ul style="list-style-type: none"> Provide programme (budget support) to minimise disbursement delays Provide information on value of all aid-in-kind, especially food aid
Disbursement Procedures	<ul style="list-style-type: none"> Seek reduced donor matching fund requirements to below 10% of loan/grant amount Work with donors to harmonise disbursement procedure Exclude donor funds for non-priority projects from tax exemptions and do not provide matching funds for them 	<ul style="list-style-type: none"> Reduce donor matching fund requirements to below 10% of loan/grant amount Work with government to harmonise disbursement procedure Review tax exemptions requested and count government contributions in kind and tax exemptions as matching funds
Procurement Procedures	<ul style="list-style-type: none"> Reject tied funds and encourage local procurement Ask donors to use government procurement procedure 	<ul style="list-style-type: none"> Eliminate all forms of tying, and encourage local procurement Comply with government procurement procedures
Co-ordination and Evaluation	<ul style="list-style-type: none"> Survey donors annually to assess compliance with government policy and report at CG meetings Ask donors to minimise review missions and meetings and to conduct jointly whenever possible Work with donors to harmonise reporting and financial accounting formats 	<ul style="list-style-type: none"> Report annually to government on progress with above objectives. Reduce demands on government officials by synchronising review missions and meetings with other donors Work with government to harmonise reporting and financial accounting formats

Source : A Johnson et Al, 2004