Aid Effectiveness

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This note is intended as an introduction to debate on the issues surrounding aid effectiveness and good governance. The Paris Declaration on Aid Effectiveness and the recent UN meeting on aid effectiveness in Ghana are also discussed.

For more detailed information on the subjects discussed in this note, please see the 'Further reading' section from page 14.

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1.1 Introduction

There are a range of interlinked arguments that increased aid is not necessarily a panacea to poverty. The arguments can be divided into two broad categories; those that argue aid does increase economic growth but that aid can be made more effective, and those that argue that institutional reform (governmental and financial), secure property rights and open markets are far more important for development.

1.2 Aid effectiveness and governance

Recent debate on aid and development has prioritised increases in the volume of development aid. A prominent proponent of increased aid is Jeffrey Sachs. In his book, *The End of Poverty*, he proffers the common case for aid; that it "helps to jump-start the process of capital accumulation, economic growth, and rising household incomes."[1] Sachs was also a member of the UN's Millennium Project. It produced a report in January 2005 which was described as "a practical plan to achieve the Millennium Development Goals". It included a list of "quick wins" which would "improve millions of lives and promote economic growth". These included mass distribution of malaria bed-nets, ending user fees for health and education, increased numbers of HIV/AIDS patients using antiretroviral treatment, expansion of school meals programmes and free or subsidised distribution of fertilizers.[2]

Those putting forward the more negative view on aid and its effectiveness point to the fact that there have been significant volumes of aid but little economic progress in some parts of the world with, notably, the performance of sub-Saharan African countries often being contrasted with the relative economic success of countries in East and South East Asia. Economists such as William Easterly have long argued that increased aid does not necessarily lead to economic growth and reduced corruption;[3] Easterly argues that aid can be ineffective unless it is delivered through aid agencies that are more accountable and effective.[4] Meanwhile, some neo-liberal economists have argued that it is more important to focus on combinations of institutional reform (governmental and financial), secure property rights and open markets. Additionally, two IMF working papers received a degree of attention. One found that there was little evidence of a robust positive impact of aid on growth, although the authors pointed out that the findings related to past performance and were not intended to show that aid could not be effective in the future.[5] The same authors also investigated what undermined the impact of aid on growth. One reason given was that aid inflows could cause the real exchange rate to become overvalued leading to increases in the prices of imports and a fall in wages.[6]

A study by the International Policy Network concluded that "aid has failed to achieve its goals in the past 50 years. Worse, in many cases aid has been counterproductive – crowding out private sector investment, undermining democracy and perpetuating poverty." It argued that economic growth depends not on the level of foreign aid given to a country, but on

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1 *The End of Poverty,* Jeffrey Sachs, Penguin, 2005*,* p246

2 *Investing in Development: A Practical Plan to achieve the Millennium Development Goals*, UN Millennium Project, 2005

3 Such a view was originally argued in the 1960s by economists such as Milton Friedman and Peter Bauer.

4 W. Easterley, "Can Foreign Aid Buy Growth?", Journal of Economic Perspectives, vol. 17, no. 3, Summer 2003, pp23-48

5 Aid and Growth: What Does the Cross-Country Evidence Really Show? Rajan and Subramanian, IMF Working Paper (http://www.imf.org/external/pubs/ft/wp/2005/wp05127.pdf)

6 What Undermines Aid's Impact on Growth?, Rajan and Subramanian, IMF Working Paper (http://www.imf.org/external/pubs/ft/wp/2005/wp05126.pdf)

underlying, qualitative factors such as the structure of property rights, the extent to which courts of law apply and enforce abstract, clear rules inexpensively and quickly, the size of government and its effectiveness in delivering public goods and the openness of the economy to trade and investment with the outside world.[7]

Furthermore, some commentators have questioned whether developing countries necessarily have the absorptive capacity to make use of substantially increased aid flows. As an ODI briefing paper from May 2005 described,[8] constraints on the absorption of aid may be macroeconomic, institutional, policy-related, technical, managerial or linked to donor behaviour (ie lack of donor coordination and harmonisation). There are also arguments that aid is subject to diminishing returns; a study argued that there was an aid "Laffer" curve and that beyond a point increased aid actually has negative effects.[9]

Much of the current discussions about aid acknowledge the issues of quality and effectiveness.[10] A 2005 ActionAid report, strongly rebuffed by DFID,[11] argued that 61% of existing aid flows is "phantom aid":[12]

> Failure to target aid at the poorest countries, runaway spending on overpriced technical assistance from international consultants, tying aid to purchases from donor countries' own firms, cumbersome and ill-coordinated planning, implementation, monitoring and reporting requirements, excessive administrative costs, late and partial disbursements, double counting of debt relief, and aid spending on immigration services all deflate the value of aid.

DFID argues that it is improving the effectiveness of its development assistance by targeting its aid towards the poorest countries; DFID's PSA target 6, states that 90% of its bilateral programme should be directed to Low Income Countries and that is should achieve a sustained increase in the index of its bilateral projects evaluated as successful.[13] DFID's policy on aid allocation is based on research which suggests that:[14]

> aid only really works when government policies are good, and a more selective allocation of aid to "good policy / high poverty" countries will lead to larger reductions in poverty.

Part of the argument over aid effectiveness relates to the importance of allowing developing countries to determine their own development priorities, rather than having these decided by donors. In 2005 DFID, together with the FCO and Treasury, produced a paper[15] which restated the Government's policy on aid conditionality. It stated that in future, the Government would not make its aid conditional on specific policy decisions by partner governments or attempt to impose policy choices on them. Instead, it would agree benchmarks with partner countries which look at the impact of the decisions they take on reducing poverty and improvements in health and education. The paper focuses on the

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7 "New IPN study shows foreign aid does more harm than good", International Policy Network, 13 June 2005

8 "Scaling up versus absorptive capacity: challenges and opportunities for reaching the MDGs in Africa" ODI, May 2005

9 Lensink, Robert, and Howard White, 2001, "Are There Negative Returns to Aid?" Journal of Development Studies, Vol 37 (August), pp. 42–65 see also *Are there negative returns to aid: a comment*, Mwanza Nkusu, IMF working paper WP/04/212, November 2004

10 "Aid effectiveness and the Millennium Development Goals" Steven Radelet, Center for Global Development, April 2004

11 http://www.dfid.gov.uk/news/files/2005/aid-effectiveness-background.asp

12 "Real Aid: an agenda for making aid work" ActionAid, June 2005

13 http://www.dfid.gov.uk/pubs/files/PSA/DFID-PSA-2005-08.pdf

14 "Policy implications for aid allocations of recent research on aid effectiveness and selectivity: a summary" ,Jonathon Benyon, DFID, June 2001

15 "*Partnerships for poverty reduction: rethinking conditionality*, DFID/Treasury/FCO, March 2005

importance for donors of increasing developing country ownership, predictability, accountability and harmonisation of development assistance.

A book published by The Center for Global Development[16] uses case studies of 26 developing countries to critique existing foreign aid practices and argue for radical changes in the deployment of development assistance. It follows similar arguments that institutional change is necessary for aid to be beneficial.

These economic arguments against aid have been around for many years. The aforementioned study on the aid Laffer curve points out that:[17]

> Milton Friedman supported military aid to defend the "free world", but argued that the case for economic aid was based on three basic propositions that are "at best misleading half-truths" (1958, reprinted in 1970: 67). He objected in particular to the idea that development required comprehensive planning and control by government. Indeed, the contrary was the case - that is, "what is required in the underdeveloped countries is the release of the energies of millions of able, active, and vigorous people, ... [who] only require a favourable economic environment to transform the face of their countries" (*ibid*: 71). Hence aid will "almost surely retard economic development and promote the triumph of Communism".

Another voice with similar arguments was Peter Bauer. In a 1981 book[18] he argued:

> Since official wealth transfers go to governments and not to the people at large, they promote the disastrous politicisation of life in the Third World. The tendency towards politicisation operates even in the absence of these transfers, but is much buttressed and intensified by them. Aid increases the power, resources and patronage of governments compared with the rest of society and therefore their power over it.

He also discusses the Marshall Plan, which may be of interest in the context of the Chancellor's calls for a "Marshall Plan for Africa", prior to the G8 summit in Gleneagles in 2005:

> Third, the success of the Marshall Plan is a recurrent theme in the advocacy of aid. But the Marshall Plan is irrelevant to the case for Third World aid. The peoples of Western Europe had the faculties, motivations and institutions favourable to development for centuries before the Second World War: rebuilding, not development, was the task after the war. Hence the rapid return to prosperity in Western Europe and the termination of Marshall aid after four years, in contrast to the economic plight of many aid recipients after decades of aid, and their failure to repay loans obtained on favourable terms; and in contrast also to the proposals for indefinite continuation of official aid.

The concept of "pauperisation" is also used in the book. The US trust territory of Micronesia is described as a society where dependence on government jobs and benefits has led to people abandoning farming and fishing. Aid to the territory had increased from $5 million per annum during the Kennedy administration to around $100 million by 1980.

Bauer's ideas on aid and development are often repeated. The December 2003 edition of *Economic Affairs* included four essays "in the spirit of Peter Bauer". The article on aid, titled

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16 "Overcoming stagnation in aid-dependent countries" Nicholas van de Walle, Center for Global Development, March 2005. A two-page summary of the book is available at: http://www.cgdev.org/doc/books/overcoming%20stagnation/Van%20de%20Walle%20CGD%20Note%20-%20Stagnation%20Formatted1.pdf

17 Lensink, Robert, and Howard White, 2001, "Are There Negative Returns to Aid?" Journal of Development

18 P Bauer, *Equality, The Third World and Economic Delusion*, Methuen, 1981, pp103-4 , p110

Poverty and recovery: the history of aid and development in East Africa is available online at:[19]

http://www.ingentaconnect.com/content/bpl/ecaf/2003/00000023/00000004/art00005

1.3 The International Finance Facility

It has been argues by some that an International Finance Facility (IFF) may be used development policy tool to improve the effectiveness of aid finance and delivery. Such an approach is currently being piloted with the International Finance Facility for Immunisation (IFFIm) which was set up in 2006. The IFFIm frontloads funding for immunisation programmes in developing countries through capital markets. Seven countries (UK, France, Italy, Norway, South Africa, Spain and Sweden) have made legally-binding long-term budgetary commitments which allow the IFFIm to raise a total $4 billion over the next ten years to support the programmes of the GAVI Alliance.[20] The first five-year bond raising $1 billion was placed on the markets in November 2006. The second bond, intended to raise a further $223 million was issued on 4 March 2008. The IFFIm uses these long-term, binding commitments from donors as collateral against which to borrow money up front from institutional and private investors, which can be spent immediately on mass vaccination programmes. The IFFIm is meant to be a pilot project for a larger International Finance Facility (IFF) that would frontload larger amounts of ODA funding. The concept of IFFs was originally announced by the Chancellor Gordon Brown on 23 January 2003 and reiterated in the 2004 Budget Red Book. Library Standard Note SN/EP/2705 gives further details.

Arguments against the IFF can be divided into those which focus on the mechanism itself, and those which critique the IFF's likely impact on poverty.[21] Criticising the proposed mechanism for the IFF, President Bush stated "it doesn't fit our budgetary process," referring to the difficulty of getting Congress to commit future Congresses to make appropriations. Some commentators have queried the constitutionality of the IFF. John Williamson, of the Institute for International Economics, for example remarked that "[The United States] can borrow on behalf of the U.S. government but not some [outside] agency". Another question concerns the difficulty for governments of obtaining, in the short term, the substantial funds suggested for investment in the facility.

Questioning the likely impact of the IFF on poverty, some commentators say the IFF could result in a decline in future aid dispersals, since the bonds would have to be repaid in 10 or 15 years by funds taken from future aid budgets. Others have questioned the assumption inherent in the IFF's front-loading of aid budgets, namely that aid is worth more today than it will be in the future. If the capacity constraints facing poor countries are more binding today than in the future however, it might make more sense to build up from low levels of aid, rather than down from higher levels. The arguments rehearsed above, about whether developing countries have the capacity to absorb development aid, apply to substantial injection of development funds which the IFF would entail.

Other alternative proposals to raise funds for development have included proposals to introduce a global tax on foreign exchange transactions and air fares. The US alternative to the IFF is the Millennium Challenge Account (MCA), which ties aid to democratic and economic reform. Critics have described this as a system of "picking winners" which will

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19 Erixon F, "Poverty and recovery: the history of aid and development in East Africa", *Economic Affairs*, vol 23 No 4 December 2003, pp27-33

20 The global Alliance for Vaccines and Immunisation is a public-private partnership focused on increasing children's access to vaccines in poor countries.

21 "The Iffy direction of the IFF" Todd J. Moss, September 2004

neglect some of the poorest and most poorly governed countries.[22] A full list of eligible countries is available at:

http://www.mcc.gov/countries/index.php

1.4 Conditionality

In the context of aid effectiveness, it is also useful to provide some information on conditionality and the view held by some that the International Financial Institutions (ie the World Bank and IMF) force developing countries to adopt liberal economic policies which, it is argued, are contrary to the developing countries' interests.

Aid agencies and campaign groups often argue that there are too many conditions attached to aid or debt relief. In their submission to the World Bank's review on conditionality *Oxfam International* argued that the administrative burden of conditions was excessive, that "the way conditions are conceived and implemented continues to undermine domestic political processes and the formulation of national strategies" and that there needed to be more independent assessment of the poverty impact of conditions.[23]

ActionAid's response to the same consultation said:[24]

> At its heart, conditionality reflects a lack of donor trust or confidence in the capacity or commitment of the recipient country: conditions are designed to ensure that governments do things they wouldn't otherwise do, or at least do as fast. The Issues Paper suggests that the Bank has dispensed with this type of conditionality, and states that emerging good practice eschews 'additionality' and respects ownership.
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> However, the evidence for this change is lacking. Even in 'strong performers' conditions continue to be used to leverage more ambitious policy change than the government would otherwise support: in Tanzania, for example, debt relief was conditional on a (recently failed) lease contract being introduced in Dar es Salaam's water sector, despite widespread misgivings, described in Bank documents as, 'a high risk of inadequate government commitment'. In Vietnam, the PRSC matrix contains conditions on state-owned enterprise reform, financial sector reform and trade liberalisation, despite local donor recognition that these are not all areas where government commitment is genuine.

UK policy

The UK Government set out its new policy on conditionality in March 2005.[25] This states that the relationship between donors and each developing country should be a partnership, based on shared commitments and priorities taken from the country's own poverty reduction strategy, and that progress should be measured against benchmarks from that strategy. In a parliamentary question from June 2005, the Secretary of State for International Development said:[26]

> UK aid will be subject to only three fundamental conditions, which ensure that aid is used to reduce poverty, is not misused through corruption and supports good governance and human rights. We will no longer make UK aid conditional on specific policy choices by partner governments—including in sensitive economic areas such as privatisation or trade liberalisation.

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22 For more information see: http://www.whitehouse.gov/infocus/developingnations/millennium.html

23 *Oxfam International Submission to World Bank Review of Conditionality, May 2005*, Oxfam International

24 *ActionAid International submission on the World Bank review of conditionality*, ActionAid International, June 2005

25 *Partnerships for poverty reduction: rethinking conditionality*, DFID/Treasury/FCO, March 2005

26 HC Deb 29 June 2005 c1538-9W

The difference between these commitments and conditionality was clarified in a later answer:[27]

> DFID believes that effective aid partnerships with developing country Governments depend on shared commitments to reducing poverty and achieving the Millennium Development Goals (MDG)s; respecting human rights and other international obligations; and strengthening public financial management to reduce the risk of corruption. DFID uses these commitments both as our criteria for deciding whether to provide aid through Government, and as conditions for our aid. Once aid has been committed to a partner Government, DFID will only reduce it if the Government moves away from one of these three partnership commitments.

In January 2006, DFID published a "how-to" note on implementing the new policy on conditionality. This note explains in more detail the way in which conditions should be used:[28]

> It makes clear that we should use conditions to ensure aid is used effectively, and for the purposes intended. However, when we use conditions we should seek to minimise any negative effects on country leadership and predictability. In particular we will not attempt to impose policy choices on partner governments by making aid conditional on specific policy decisions (including in sensitive economic areas such as privatisation and trade liberalisation).
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> Although we will not use conditionality to impose policy choices on partner governments, policies and the process of policy making are important for poverty reduction. We should promote the sharing of evidence about the impact of policy reforms and support analysis of policy options when policies are being formulated.

World Bank and IMF conditionality

Both the World Bank and IMF have been reviewing their policy on conditionality. The World Bank's review was published in 2005.[29] It found that the average number of conditions had fallen, from 35 in the late-1980s to 12 in 2005. It also found that the Bank had fully recognized the importance of country-ownership of development programmes, that conditions were transparent and clearly defined and that the "Bank's approach is fully compatible with the goal of harmonization of financial support while retaining the Bank's own distinct accountability."

DFID published a response to the review.[30] It broadly agreed with the conclusions but wanted the Bank to produce a "a clear statement setting out the strict limited circumstances when the Bank might use sensitive policy actions as triggers or benchmarks" and also set out "how the Bank will ensure that is has been informed by analysis of the political, economic, social and poverty impact of these policy changes."

DFID's report on its work with the World Bank in 2006/07 said:[31]

> Ensuring that the World Bank uses conditionality appropriately continues to be a high priority for the Government. The UK has pushed for reforms to Bank conditionality policy and practice over recent years, and in 2006 we saw further progress.
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> During the negotiations of IDA 14, the UK and Sweden agreed to make additional contributions to the IDA 14 replenishment provided that the Bank made progress on

27 HC Deb 31 January 2006 c332-3W
28 *Implementing DFID's conditionality policy*, DFID, January 2006
29 *Review of World Bank Conditionality,* World Bank, September 2005
30 *The Review Of World Bank Conditionality: Statement By Rt Hon Hilary Benn, Secretary Of State For International Development*, DFID, 2005
31 *The UK and the World Bank 200607*, DFID, 2007

> conditionality and working better with governments and other donors. The first phase of actions required the Bank to review its use of conditionality; the second phase required it to implement the review's recommendations in 2006.
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> The review was carried out in 2005 and the Bank subsequently adopted five "Good Practice Principles". The first, and most important, of these is country ownership of conditions.
>
> A Bank report in July 2006 failed to provide sufficient information, so the Secretary of State said that the UK would withhold our second additional contribution until the Bank produced evidence that the Principles were being applied. This evidence was presented in December 2006.
>
> This second report was much more thorough and candid. It demonstrated that the Bank had made progress on implementing the principles and the Secretary of State released the money. The report reiterated the Bank's commitment to make further improvements on conditionality. It recommended avoiding using conditions in sensitive policy areas – such as privatisation and trade liberalisation – if government ownership is uncertain or the political environment is fragile. The report said that the Bank should release its analytical work in countries earlier to allow for debates on policy options. It also said that the number of benchmarks – actions used to monitor progress but which do not trigger release of funds – should be reduced. The Board accepted all of these recommendations.

A further World Bank report on conditionality was published in December 2007. This found that:[32]

> […] Bank support remains broadly consistent with the good practice principles on conditionality. In particular, the paper gives evidence for government ownership of Bank-supported programs, including where they support sensitive reforms, and for the use of analytic work to address poverty and social impacts of policies. Progress has also been made in other areas: (a) sensitive reforms are rarely used in fragile environments and only when there is sufficiently strong evidence of ownership; (b) use of process conditions is rare; (c) matrix sizes have been sharply reduced, and a further reduction may not be possible without harming harmonization efforts; (d) in many countries the Bank is working closely with financial partners in harmonizing support around government budget cycles; (e) the Bank maintains a strong record of predictability of its budget support; and (f) results frameworks have been strengthened through the more systematic use of baseline indicators.

The Treasury publish an annual report on the UK and the IMF. The 2006 edition included a section on conditionality:[33]

> 2.45 The use of conditionality on aid is contentious, especially in sensitive policy areas such as privatisation and trade liberalisation. Inappropriate conditionality brings high transaction costs for countries, threatens national ownership of reform, and has largely been ineffective in leveraging sustained policy reform.
>
> 2.46 In March 2005, the UK published a new paper on conditionality, calling for a new approach between donors and developing countries based on a shared commitment to poverty reduction and achieving the MDGs, strengthening financial management and accountability, and respect for human rights. In this new approach, the UK established that agreed benchmarks for measuring progress on the reduction of poverty will be the

[32] http://go.worldbank.org/6UF9OQDJO0
[33] *The UK and the IMF 2005: Meeting the challenges of globalisation for all*, HM Treasury, March 2006,

> basis for UK bilateral support. The benchmarks will focus on the impact of the government's overall programme, rather than specific policy choices. To make aid flows more predictable, the UK will seek to be clear in advance about how much aid will be given and the basis on which funds will be reduced or stopped. A legitimate reason for retaining safeguards relating to financial management and accountability systems is to demonstrate to UK citizens and Parliament that overseas aid is well spent, and not misused through weak administration or corruption.
>
> 2.47 The IMF recently conducted an internal review of its own conditionality guidelines. This demonstrated progress in narrowing the range of conditions, but indicated room to improve the stress on country ownership, implementation and poverty focus. In addition, the Independent Evaluation Office will be conducting a review of IMF structural conditionality in 2006. The UK will work within the framework of these reviews, and in individual country discussions, to promote the new approach to conditionality adopted by the UK.

The IMF Independent Evaluation Office's (IEO) review of IMF structural conditionality mentioned above was completed in 2007. Notably it found that the number of structural conditions has not declined and that some conditions were not critical for the achievement of program goals. In light of the review, the Executive Board put together a management implementation plan in response to the Board-endorsed IEO recommendations. The plan:[34]

> […] calls for sharpening the application of the 2002 Guidelines on Conditionality by requiring better justification of criticality, establishing explicit links between goals, strategies and conditionality, and enhancing program documents. The plan also entails the upgrading of MONA (a database with information on the conditionality in IMF-supported programs) to improve program monitoring and making the MONA database available to the public.

1.5 Arguments surrounding the effectiveness of EU development assistance

There have long been arguments about the effectiveness of EC development assistance (a subject already touched on in section one of this brief). In 2000, the then Secretary of State for International Development, Clare Short, labelled the Commission "the worst development agency in the World".[35]

However, more recently, the position does seem to have improved. In evidence to the International Development Committee in July 2006, Sir Suma Chakrabarti, DFID's then permanent secretary, said:[36]

> We feel the EDF, the European Development Fund, is probably the most improved channel of assistance in the last few years. There were issues about disbursement rates which came out in one of the reports today but in terms of quality it has improved a lot. This says a lot about UK investment in Brussels in terms of people to improve the quality of the EDF. It says quite a lot about the fact the EDF on the ground is increasingly co-financing the World Bank and DFID programmes which helps the quality, because they do not necessarily have very good staff. The third thing is it does say a lot about taking a hard-nosed approach to replenishment, unlike on the EU budgetised programmes where we do not have any say because they are Treaty obligations. The EDF story is a quite interesting one and we would be willing to talk more about that in the future.

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34 http://www.imf.org/external/np/exr/facts/conditio.htm

35 "Short labels EU the worst aid agency in the world", *The Guardian*, 18 May 2000

36 *DFID Departmental Report 2006,* International Development Committee, HC 2005-06 1491-I, ev. q38

A particular concern is the proportion of EC assistance which goes to low-income countries. In 2006, 46.1% of EC assistance went to LICs, well below the target of 70% that the UK has demanded (as part of DFID's Public Service Agreement). One reason for this is that a significant proportion of EC aid goes to Balkan and pre-accession countries – in 2007 the largest recipient of EC ODA was Turkey, followed by Serbia.[37] There is a significant difference, as referred to by the permanent secretary, between the aid provided through the general contributions to the EC Budget and those provided through the European Development Fund which has a much greater poverty focus.

The Science and Technology Committee looked at the use of science in UK International Development Policy. It included some strong words on EU development assistance:[38]

> 38. The DFID Departmental Report 2004 states that in 2003-04 "the UK's share of the European Commission's development and pre-accession programmes is expected to total some £970 million. This is about 25% of DFID's budget".[54] Yet Mr Benn said of EU development funding: "as I think everybody knows, it has not been terribly effective in the past".[55] The Secretary of State additionally told us that there was "a process of reform taking place that the UK has played a very strong part in pushing, and we have seen some improvement. There is further improvement yet to be made".[56] During our visit to Malawi we also heard that EU development programmes in Southern Africa were of variable quality.
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> 39. The International Development Select Committee stated in its Report on DFID in 2003 that the "EU's record in terms of the share of aid reserved for poor countries remains substantially worse than that of individual member states" and warned that in view of the enlargement of the EU, "DFID will need to find ways of ensuring that the accession of the 'ten' does not reinforce the tendency for the EU to focus on the 'near abroad'".[57] The Report also criticised DFID for not providing "a succinct assessment of how the EU external assistance meets the UK's development objectives" in the 2003 Departmental Report.[58] **It is not acceptable that 25% of DFID's funds have been potentially allocated to development programmes that are widely perceived to have been of dubious effectiveness. DFID has responsibility for ensuring that the multilateral routes through which UK aid is channelled represent good value for money for UK taxpayers. DFID's past failure to monitor its multilateral investments has been a hindrance to ensuring that this expenditure makes an effective contribution to meeting DFID's objectives.**

However, this report was from October 2004, and since then, the perception of EC development policy is that it has improved. The 2007 DFID Departmental Report points to the adoption of a new development policy which established policy eradication as the overall objective of the EC and member states' development policies.[39]

One area where it is argued that the EC has a significant comparative advantage is in the provision of transport infrastructure – around a third of funding from the last round of the European Development Fund was on transport:[40]

> The EC has been a major donor in transport infrastructure for years with considerable experience and expertise. Road building in every part of the world – for example in

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37 EC, *Annual Report 2008 on the European Community's Development Policy and the Implementation of External Assistance in 2007*, June 2008, pp156-59

38 Science and Technology Committee, *The use of science in UK international development policy*, HC 2003-04 133, October 2004

39 DFID, *Development on the Record: DFID Annual Report 2007*, May 2007

40 "What is the European Community's Comparative Advantage with respect to aid?", Speech to Overseas Development Institute, September 2003

> Mozambique, in Peru, in Georgia, and now even rebuilding trade routes in Afghanistan has been important in helping poverty reduction and economic development. The EC can mobilise the substantial initial investments needed for transport networks, which is difficult for any single donor to achieve, and at the same time could ensure sustainability by integrating transport policies with macroeconomic and fiscal reform. Around a third of EDF9 resources have been allocated to transport following consultation with partners.

Finally, DFID's latest White Paper, published in July 2006, welcomes the improvements seen in recent years but points to specific improvements that still need to be made in EC assistance:[41]

> **8.30** After five years of reform, EC aid is now much better than it was. EuropeAid was setup to implement all external assistance, replacing the previous fragmented system. Management of aid has been largely decentralised to the field. And the European Development Fund, which supports African, Caribbean and Pacific countries, has become more effective and flexible. Europe's humanitarian work is highly respected. And new, streamlined 'instruments' for the EC's aid to different regions and themes will be in place by 2007.
>
> **8.31** But to realise Europe's potential as a leader on international development, we co-operation between EU donors, and to make EC aid more effective. Policy and implementation of aid remains split between different parts of the Commission. And field offices have less responsibility and capacity than they need. If performance does not improve, a second wave of reform will be needed.

1.6 Recent international meetings regarding aid effectiveness

UN conference on financing for development (Monterrey, 2002)

At Monterrey in March 2002 the UN conference on financing for development discussed means of providing more financial resources to developing countries. Notably, the Monterrey Consensus published following the conference makes reference to aid effectiveness in chapter II, paragraph 40. This paragraph refers to the need for effective partnerships among donor and recipient countries based on the recognition of recipient countries leadership and ownership of development plans and, within this framework, sound policies and good governance at all levels are necessary to ensure Official Development Assistance (ODA) effectiveness. The Monterrey Consensus also supported efforts to increase ODA and urges developed countries that have not done so to make concrete efforts towards the target of 0.7% of GNI as ODA to developing countries (see chapter IV of the Monterrey Consensus). In order to build support for ODA, the Monterrey Consensus states that Member States "will cooperate to further improve policies and development strategies, both nationally and internationally, to enhance aid effectiveness." More information on the Monterrey Consensus may be found in Library Research Paper 02/16, *Financing for Development*.

Paris Declaration on Aid Effectiveness

In 2005, a High-level Forum organised under the auspices of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) agreed on the 2005 Paris Declaration on Aid Effectiveness. The Declaration was seen as "an unprecedented global consensus" for reforming the delivery and management of aid to improve its effectiveness. It commits 90 partner countries, 30 donor countries and 30 development agencies, including the United Nations and the World Bank to five principles:

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[41] *Eliminating World Poverty: Making Governance Work for the Poor*, DFID, July 2006, p117

- Advancing country ownership: Partner countries exercise effective leadership over their development policies and strategies, and coordinate development actions.

- Harmonization of donors and creditors: Donors' actions are more harmonized, transparent, and collectively effective.

- Alignment with country-led strategies: Donors base their overall support on partner countries' national development strategies, institutions, and procedures.

- Managing for development results: Managing resources and improving decision making for development results.

- Mutual accountability for the use of aid: Donors and partners are accountable for development results.

The Declaration contains 56 partnership commitments to improve the quality of aid. For example, under ownership, partner countries commit to exercise leadership in developing and implementing their national development strategies, and donors commit to respect partner countries' leadership and help strengthen their capacity to exercise it.

The Declaration also sets out 12 indicators to provide a measurable and evidence-based way to track progress, and sets targets for 11 of the indicators for the year 2010. A first round of monitoring of the 12 indicators was conducted in 2006 on the basis of activities undertaken in 2005 in 34 countries. It suggests that important efforts are still needed if the commitments agreed in the Paris Declaration are to be achieved and the full potential for improving development effectiveness at a country level is the be realised. The results of the 2006 Survey are available here. In the run-up to the 2008 High-Level Forum on aid effectiveness (see section below), a second survey was published: http://www.oecd.org/dataoecd/58/41/41202121.pdf

Third High Level UN Forum on Aid Effectiveness (Accra, 2-4 September 2008)

On 2-4 September 2008, over 1200 representatives of the development community, including governments of aid receiving and disbursing countries, other donor institutions, foundations, parliaments, and civil society organisations, gathered in Accra for the Third High Level Forum (HLF) on Aid Effectiveness, a conference on improving the quality and impact of development assistance.

Three years after the Paris Declaration on Aid Effectiveness, the meeting in Accra was intended to review progress on the Paris commitments and speed up the full implementation of the 2005 Declaration. With the endorsement of the Accra Agenda for Action, developed and developing countries agreed to take bold steps to reform the way aid is given and spent. In particular, new commitments were made to increase the transparency and predictability of aid flows, to further untie aid, and to improve the management of technical assistance. Actions was also agreed on the use of country systems, which donors must now consider as the first option, transparently stating why they would not use them, as well as on anti-corruption measures and improved division of labor between donors at the country level. A summary of key points agreed in the Accra Agenda for Action is provided below:

- Predictability – donors will provide 3-5 year forward information on their planned aid to partner countries.

- Country systems – partner country systems will be used to deliver aid as the first option, rather than donor systems.

- Conditionality – donors will switch from reliance on prescriptive conditions about how and when aid money is spent to conditions based on the developing country's own development objectives.

- Untying – donors will relax restrictions that prevent developing countries from buying the goods and services they need from whomever and wherever they can get the best quality at the lowest price.

More information on the meeting can be found at: http://www.accrahlf.net/

Financing for Development (Doha, December 2008)

In December 2007, The UN General Assembly decided that the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus would be held in Doha, Qatar, from 29 November to 2 December 2008. General Assembly resolution 62/187 mandated the conference to "assess progress made, reaffirm goals and commitments, share best practices and lessons learned and identify obstacles and constraints encountered, actions and initiatives to overcome them and important measures for further implementation, as well as new challenges and emerging issues". On aid effectiveness, the outcome document for the conference stated:[42]

> 46. We welcome increasing efforts to improve the quality of ODA and to increase its development impact. The Economic and Social Council Development Cooperation Forum, along with recent initiatives, such as the High-level Forums on Aid Effectiveness, which produced the 2005 Paris Declaration on Aid Effectiveness, and the 2008 Accra Agenda for Action, make important contributions to the efforts of those countries which have committed to them, including through the adoption of the fundamental principles of national ownership, alignment, harmonization and managing for results. Continued building on these initiatives, including through more inclusive and broad-based participation, will contribute to enhancing national ownership and making aid delivery more effective and efficient and lead to improved outcomes. We also encourage all donors to improve the quality of aid, increase programme-based approaches, use country systems for activities managed by the public sector, reduce transaction costs and improve mutual accountability and transparency and, in this regard, we call upon all donors to untie aid to the maximum extent. We will make aid more predictable by providing developing countries with regular and timely, indicative information on planned support in the medium term. We recognize the importance of efforts by developing countries to strengthen leadership of their own development, national institutions, systems and capacity to ensure the best results of aid by engaging with parliaments and citizens in shaping those policies and deepening engagement with civil society organizations. We should also bear in mind that there is no one-size-fits-all formula that will guarantee effective assistance. The specific situation of each country needs to be fully considered.
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> 47. We note that the aid architecture has significantly changed in the current decade. New aid providers and novel partnership approaches, which utilize new modalities of cooperation, have contributed to increasing the flow of resources. Further, the interplay of development assistance with private investment, trade and new development actors provides new opportunities for aid to leverage private resource flows. We re-

[42] United Nations, *Doha Declaration on Financing for Development: outcome document of the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus*, 9 December 2008, p14

emphasize the importance of the Development Cooperation Forum of the Economic and Social Council as the focal point within the United Nations system for holistic consideration of issues of international development cooperation, with participation by all relevant stakeholders. We shall pursue efforts, both in the United Nations and in collaboration with other relevant institutions, such as the Organization for Economic Cooperation and Development (OECD)/Development Assistance Committee (DAC), to advance dialogue and cooperation among the increasingly diverse community of development partners. All development actors should cooperate closely to ensure that increased resources from all sources are used in a manner which ensures maximum effectiveness. We shall also pursue enhanced collaboration at the country level with the private sector, non-official donors, regional organizations and official donors.

48. There is a growing need for more systematic and universal ways to follow quantity, quality and effectiveness of aid flows, giving due regard to existing schemes and mechanisms. We invite the Secretary-General, with relevant United Nations system agencies, in close cooperation with the World Bank, the regional and subregional development banks, OECD/DAC and other relevant stakeholders, to address this issue and to provide a report for consideration by the Development Cooperation Forum.

1.7 Further reading

Below are a range of further useful papers and reports on aid, aid effectiveness, good governance and international development in general:

1. Library Standard Note SN/EP/3714, *Overseas aid: UK aid budget*

2. Library Standard Note SN/EP/1769, *Overseas aid: international comparisons*

3. Library Standard Note SN/EP/4422, *Corruption and the State in International Development*

4. House of Commons International Development Committee, *Working Together to Make Aid More Effective*, Ninth Report of Session 2007–08 (see also the Government's Response to the report).

5. *Development: Making it Happen*, DFID Annual Report 2008, May 2008

6. *Annual Review of Development Effectiveness 2008*, World Bank (Independent Evaluation Group), 2008

7. *Better aid: 2008 Survey on Monitoring the Paris Declaration, Making Aid More Effective by 2010*, OECD DAC, 2008

8. *Effective Aid Management: Twelve Lessons from DAC Peer Reviews*, OECD DAC, 2008

9. DFID webpage on Aid Effectiveness: http://www.dfid.gov.uk/mdg/aid-effectiveness/

10. Riddell, R., *Does foreign aid really work*, 2007 (available from Members Library)

11. Radelet, S., "A primer on foreign aid", *Center for Global Development*, July 2006

12. Menocal and Mulley, "Learning from experience? A review of recipient government efforts to manage donor relations and improve the quality of aid", *Overseas Development Institute*, May 2006

13. De Renzio and Mulley, *Managing Aid Dependency Project, Donor Coordination and Good Governance*, March 2006

14. ODI Briefing Paper, *Governance, development and aid effectiveness: a quick guide to complex relationships*, March 2006

15. Sachs, J., *The End of Poverty*, 2005 (available from Members Library)

16. Mallably, S., *The World's Banker*, 2005 (available from Members Library)

17. IMF, *Does Foreign Aid Reduce Poverty? Empirical Evidence from Nongovernmental and Bilateral Aid*, May 2005

18. Global Policy Forum, *Stingy Samaritans: why Recent Increases in Development Aid Fail to Help the Poor*, August 2005

19. Initiative for Policy Dialogue, *Scoring millennium goals: economic growth versus the Washington consensus*, March 2005

20. DFID, *Aid instruments in fragile states*, January 2005

21. Kanbur, R., *The Economics of International Aid*, November 2003