AID - FROM CONSENSUS TO COMPETITION?

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EXECUTIVE SUMMARY:

In recent years Western donors have made one of the largest efforts ever to coordinate their aid through an approach called the "consensus model." However, new nontraditional donors such as China and India have been increasing their aid and doing so without many of the usual conditionality strings that Western donors attach. This paper examines the impact these new donors will have, the changing balance of power in aid as competition increases, and steps that could be taken to improve aid outcomes in a competitive environment.

Aid is more fragmented today than ever before. There has been a proliferation of bilateral and multilateral aid agencies in recent years: the average number of donors per recipient country rose from about 12 in the 1960s to about 33 in the 2001-2005 period, according to World Bank Group research. In addition, there are currently over 230 international organizations, funds, and programs. This growth has been accompanied by significant earmarking of aid resources for specific uses or for special-purpose organizations, including global programs or "vertical" funds. In fact, about half of the official development assistance (ODA) channeled through multilateral channels in 2005 went through some degree of earmarking by sector or theme.[1]

The result of this profusion of players has been duplication of aid efforts, high transaction costs for recipient nations, and significant opportunity costs as efficiencies from collaboration are lost. In response, aid officials have championed aid coordination and

[1] "Aid Architecture: An Overview of the Main Trends in Official Development Assistance Flows," International Development Association, Resource Mobilization, February 2007. Page 19.

harmonization. The aim of aid coordination is to benefit both aid donors and recipients by sharing information, creating a consensus on aid objectives, and collaborating on project or program implementation.

THE CONSENSUS MODEL

In recent years, a loosely tiered system of coordination or, rather coordination attempts, known as the "Consensus Model" has evolved. At the highest tier is the Millennium Development Goals (MDGs), which both the United Nations and the World Bank Group adopted in 2000. The MDGs provide a set of specific measurable development goals to which both aid donor and aid recipient nations are nominally committed.

At the next tier is the Paris Declaration on Harmonisation, which 108 nations, 24 development organizations, and a dozen or so civil society organizations signed in March 2005. The Declaration sets forth 56 "partnership commitments" around five principles: ownership, alignment, harmonization, managing for results, and mutual accountability. The Declaration also sets forth 12 indicators of aid effectiveness to encourage and track progress against the partnership commitments. The OECD-DAC Working Party on Aid Effectiveness is the lead agency for helping both developed and developing nations implement the Paris Declaration.

The third tier of the aid coordination system is the Consultative Group meetings that are held at the country level. Consultative Group meetings, often chaired by the World Bank Group, convene donors, country officials, and in some cases civil society and private sector participants in order to reach an accord between donor goals and the development goals of the recipient nation. In a parallel vein, the UNDP holds Roundtable Meetings to reach country-level accords on development goals and implementation.

The fourth tier of the coordination system is represented by Poverty Reduction Strategy Papers, first adopted in 1999, which low-income recipient countries prepare for the World Bank and IMF based on their own development goals, input from the Bretton Woods institutions, and feedback from civil society and the private sector. These strategies are supported with Poverty Reduction Support Credits, in the form of either concessional loans or grants.

Historically, there had been a backlash by aid recipients against the plethora of donor-driven initiatives that conflicted with one another, imposed onerous or unrealistic "conditionality" requirements, or were at odds with country-level priorities. (According to one survey, for example, in 2005 donors fielded 10,453 missions in 34 countries – an average of 307 missions per country per year).[2] Many aid recipients were becoming more vocal about their discontents. Noted one recent study, "Many [aid recipient] countries in regional workshops and elsewhere are voicing concerns about the high transaction costs of managing foreign aid and the slow pace of change in donor practices. They see a strong disconnect between headquarters policies and in-country practices, as illustrated by continued donor-

[2] 2006 Survey on Monitoring the Paris Declaration: Overview of the Results. Organisation for Economic Cooperation and Development. Page 55.

driven technical co-operation and lack of visible progress on untying aid."[3] One indication of the shifting balance of power between aid agencies and recipient countries is illustrated by the following: several African nations are reported to have declared "mission-free" periods, during which official visits from aid agencies were prohibited.[4] As a result of such tensions, under the current system, aid recipient countries are supposed to be "in the driver's seat," and their national development priorities are supposed to take precedence over those of donors.

The tie binding the interests of donors and recipients is supposed to be a grand bargain: donor nations agree to honor their pledges to provide aid funds on time, while recipient nations agree to honor their pledges to make reforms, integrate aid flows into their budget planning processes, and track the outcomes of aid programs.

RESULTS TO DATE

The current system of coordination has proceeded haltingly and is beset with fundamental problems. More than 50 low-income developing nations have developed Poverty Reduction Strategies (PRS), and some have taken practical steps to align their annual budgeting process with donor flows (see box). However, middle-income developing countries have largely opted out of the PRS process. The omission is glaring, as middle income countries are home to 80 percent of the developing world's population and constitute 90 percent of the GDP of the developing world.[5]

No sooner had the grand bargain of aid coordination been struck than donor nations walked away from fulfilling their aid pledges. Indeed, as World Bank Group Managing Director Graeme Wheeler noted in discussing aid coordination earlier this year, "Donors need to urgently enhance the quality and quantity of their development assistance or risk falling well short of the [aid] commitments made in Paris and Gleneagles. In 2006, [official development assistance] fell by 5 percent. It's simply not viable to backload increases in aid to 2009 or 2010 since relationships of mutual trust only develop in time."[6]

About half of the bilateral contributions channeled through multilateral development banks is still earmarked for specific trust funds, sectors, or aid themes, which constrains a recipient's flexibility and its ability to allocate such resources in keeping with national development priorities.[7]

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[3] 2006 Survey on Monitoring the Paris Declaration: Overview of the Results. Organisation for Economic Cooperation and Development. Page 10.
[4] 2006 Survey on Monitoring the Paris Declaration: Overview of the Results. Organisation for Economic Cooperation and Development. Page 33.
[5] Harmonisation, Alignment, Results: Report on Progress, Challenges, and Opportunities. OECD-DAC Working Party on Aid Effectiveness. February 2005, Page 18.
[6] Wheeler's remarks were made during the seminar, "Countries in the Driver's Seat: Making Poverty Reduction Strategies Work," April 13, 2007.
[7] "Aid Architecture" Page ii

Successful Aid Coordination / Budget Planning Reforms in Low-Income Nations

"An innovative and—by early accounts—successful approach to building capacity, ownership, and incentives at the core of government has been applied in Madagascar in the form of a Leadership and Management Program. [Albania's work] points to the importance of increased PRS ownership developed under that country's integrated planning system for budget formulation and implementation. Tanzania's initiative to harmonize planning and budgeting instruments demonstrates sensitivity to the goal of integrated reforms. Mozambique's efforts to avoid duplicating reporting instruments for donors and domestic stakeholders have helped to strengthen domestic processes and to promote integration. Last, relatively informal approaches to results-oriented budgeting in Mali and Uganda have arguably enjoyed more success than more formal approaches, because they have been in step with, rather than ahead of, the level of sophistication of the budget." Source: *Minding the Gaps: Integrating Poverty Reduction Strategies and Budgets for Domestic Accountability*. World Bank and GTZ (April 2007)

Last, would-be aid coordinators in the developing nations have discovered a practical conundrum: in instituting the budgetary and tracking systems necessary to track aid harmonization, they face significant expenses. Thus, rather than enjoying lower transactions costs through coordination, they find that transactions costs in the short term are actually higher. Indeed, one of the biggest obstacles to better aid coordination is the capacity of planning and budgeting agencies within the developing nations.[8]

FACTORS DRIVING FURTHER CHANGE

Supporters of the Consensus Model of aid harmonization and alignment will have to contend with several challenges in the coming years. Foremost, is the degree of fragmentation that will occur as donor channels proliferate and existing channels handle greater volumes of aid. The sheer number of players is already daunting:

- Within the U.S. federal government, some 50 or so federal agencies and offices play a role in international aid and development.[9]

- Outside the United States, the number of bilateral donors has grown from a handful at the end of World War II to more than 56 today, raising the political and, in some cases, market-like competition for aid and development projects.[10] As in the U.S., many of these bilateral organizations use nongovernmental organizations (NGOs) for aid and development services, further complicating efforts to streamline administration. The World Bank Group now estimates that the average number of donor nations for every one developing nation has risen from 12 in the 1960s to about 33 in the 2000s.[11]

[8] "Incentives for Harmonisation and Alignment in Aid Agencies," Paolo de Renzio, David Booth, Andrew Rogerson and Zaza Curran. Overseas Development Institute. June 2005. Page vii.
[9] "U.S. Government Funding for International Government Organizations," Janelle Kerlin, in Nonprofits in Focus: Urban Institute Policy Brief, May 2006.
[10] "Aid Architecture," p. 12.
[11] "Aid Architecture," p. ii.

- U.S. private foundations provide relatively little development assistance directly to recipient governments, preferring to provide financial support to institutions with well-developed capabilities for delivering aid effectively in specific program areas. However, the number of foundations with international programming is continuing to grow. About $3.8 billion of these foundation disbursements went to international initiatives, most of which was channeled through sector-specific organizations and global funds (such as the Global Fund to Fight AIDS, Tuberculosis and Malaria); NGOs; and public-private partnerships (such as the GAVI Alliance—formerly known as the Global Alliance for Vaccines and Immunization).

- Globally, a rough approximation of the number of civil society secretariats (i.e. NGOs) with transnational operations is 18,000,[12] some 4,100 of which operate from the United States.[13] Private sector aid contributions totaled $11 billion in 2006, an amount equal to 13 percent of the aid provided by Development Assistance Committee (DAC) donors (excluding debt relief), up from 9 percent in the 1990s. However, the amount of development assistance provided by NGOs is difficult to quantify.[14] Government funding of NGOs still predominates: in general, about 6 percent of all reported official aid to developing nations has been provided through civil society organizations, NGOs, and public-private partnerships.[15]

A second challenge facing the Consensus Model is the shifting center of gravity in global aid. By various accounts, the member nations of the DAC have provided roughly 95 percent of aid since the 1990s. However, in recent years, non-DAC nations have started to increase their aid. China, for example, already provides aid amounting to $2 billion a year, a figure higher than that of Belgium, Switzerland, or Australia. India's estimated total of some $1 billion exceeds that of Finland and Ireland.[16]

Net ODA disbursements provided by the 15 non-DAC donors who report their aid activities increased from about $1 billion over the period 1995–2001 to $4.2 billion in 2005 (the most recent year for which data are available).[17]

According to World Bank Group research, the composition of non-DAC flows has shifted substantially over the past few years, as ODA provided by the Arab countries declined (from $2.7 billion in 2002–03 to $1.7 billion in 2005) while ODA provided by other non–DAC donors increased (from $0.5 billion to $2.5 billion in 2005). The increase was led by the Republic of Korea, which provided $0.75 billion in assistance in 2005, and Turkey, which provided $0.6 billion.[18]

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[12] *Global Civil Society Yearbook 2004/5*, page 302.
[13] Kerlin, p. 2.
[14] *Global Development Finance 2007: The Globalization of Corporate Finance in the Developing Nations.* The World Bank Group, 2007. Page 57.
[15] "Aid Architecture" p. 16.
[16] "G8 Calls for Increased Scrutiny of Aid," Hugh Williamson, *The Financial Times*, March 28, 2007.
[17] *Global Development Finance 2007*. Page 57.
[18] *Global Development Finance 2007*. Page 57.

NON-DAC AND EMERGING DONORS

Non-DAC and emerging donors are becoming increasingly important as ODA providers. New donors bring with them more resources to help developing countries reach their MDGs. At the same time, new challenges for harmonization and alignment are created. Non-DAC donors are a fairly heterogeneous set of countries, which can be broadly classified into four groups: (i) OECD countries which are not members of the DAC, such as Korea, Mexico, Turkey and several European countries; (ii) new European Union countries which are not members of the OECD; (iii) Middle East and OPEC countries, particularly Saudi Arabia; and (iv) non-OECD donors that do not belong to any of the previous groups, including Brazil, China, India and Russia. Two of the most important policy challenges as regards non-DAC and emerging donors are: (i) the limited availability of data regarding their aid volumes and terms; and (ii) their diverse approaches to harmonization and alignment.

Insufficient data on non-DAC ODA makes it difficult to accurately assess aid volumes and prospects from these sources. Non-DAC OECD countries alone are expected in aggregate to double their current ODA levels to over $2 billion by 2010. See Manning (2006), *op. cit.*, p. 373. Available information suggests that non-DAC donors have been particularly involved in humanitarian aid. In response to the Indian Ocean tsunami in early 2005, for example, 70 non-DAC donors responded with pledges of support. A recent Overseas Development Institute (ODI) study found that non-DAC donors focused their efforts in a few countries (i.e., Afghanistan, Iraq, North Korea and the occupied Palestinian Territories), preferred bilateral aid over multilateral routes, and accounted for up to 12 percent of official humanitarian financing in the period 1999-2004 (based on data from the United Nations Office for the Coordination of Humanitarian Affairs' Financial Tracking System).

Although a number of non-DAC donors signed the Paris Declaration (see subsection IV.C), harmonization challenges remain present. The degree to which DAC approaches and norms as regards the provision of aid finance applied by different non-DAC countries varies across the four country groupings described above. Manning (2006) highlights three main risks for low-income countries (LICs) associated with insufficient harmonization between DAC and non-DAC donors: (i) LICs – particularly those with enhanced "borrowing space" in the wake of the Multilateral Debt Relief Initiative – might find it easier to borrow on inappropriately non-concessional terms; (ii) LICs may also have increased opportunities to access low-conditionality aid that could help postpone much-needed reforms; and (iii) if good practices in project appraisal are not followed, increased aid could translate partly into more unproductive capital projects in LICs. These risks could be mitigated by means of a strong, coordinated effort to implement the principles and targets of the Paris Declaration (see subsection IV.C). Source: "Aid Architecture: An Overview of the Main Trends in Official Development Assistance Flows," International Development Association, Resource Mobilization, February 2007.

ODA provided by non-DAC donors increased over the past few years, but it rose by less than ODA from DAC members. In 2002 ODA by non-DAC donors totaled $3.2 billion, an amount equal to 5.5 percent of the ODA provided by DAC donors (5.9 percent excluding debt relief). In 2005 non-DAC donors provided $4.2 billion, equal to just 4 percent of the ODA provided by DAC donors (5 percent excluding debt relief). However, one variable that should not be discounted is China's "Africa Policy," introduced in January 2006. Estimates of the size of China's development aid lending and grant flows vary widely, but could significantly alter the non-DAC figures.[19]

[19] *Global Development Finance 2007*. Page 57.

A third variable likely to pose a challenge for advocates of the Consensus Model is the role of private capital in the developing nations. Developing nations are increasingly able to access bank lending or achieve credit ratings that allow them to access the capital for their long-term developmental needs. According to World Bank Group research, 90 percent of the world's 135 developing nations have now accessed the syndicated loan market, while 40 percent have issued sovereign bonds.[20] Such access is already being viewed as a destabilizing factor for harmonization. Indeed, the World Bank noted in a recent report: "Uncertain whether donors will meet their commitments to enhance development assistance, some low-income countries may opt to meet their financing needs by borrowing on nonconcessional terms. Doing so could erode debt sustainability over the long term and erase the benefits of recent debt-relief initiatives. Because such borrowing is not reported in a comprehensive and timely manner, creditors and policy makers have difficulty assessing its potential impact on debt sustainability."[21]

In addition, developing countries are continuing to privatize significant numbers of assets responsible for water, telecommunications, and other types of services that are regarded as "developmental."[22]

REVOLUTION OR EVOLUTION?

Earlier this year, the G8 took official note of the increasing volumes of development aid coming from countries such as China, India, Brazil, South Africa, and Mexico, warning that these up-and-coming donors should meet higher standards for governance and transparency. However, the potential consequences reach much further. There are dangers that low-income countries could borrow on inappropriate terms and reverse years of hard-won gains on debt relief, and that easy access to aid money would create an incentive to delay necessary policy adjustments.

The worst-case scenario for the Consensus Model would be to see ever more low-income countries taking the path of such nations as Venezuela, which has rejected its World Bank Group and IMF ties on the crest of its petro-dollars. In Latin America, Argentina, Bolivia, Brazil, Nicaragua, and Venezuela have paid off their IMF debts in recent years and begun distancing themselves somewhat from the Bretton Woods Institutions. Argentina, Bolivia, Brazil, Ecuador, Paraguay, and Venezuela are expected to open a "Bank of the South" development bank this year as an alternative regional development bank.

Are we witnessing the first stage of a revolution, or merely an evolution in aid? At first glance, there would appear to be an unprecedented amount of capital available within former aid recipient nations to fuel the rise of a radically different multipolar aid system that would operate apart from Western aid agencies. Foreign exchange reserves among

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[20] *Global Development Finance 2007*. Page 59.
[21] *Global Development Finance 2007*, Page 37.
[22] "Privatization Trends: Near Record Levels in 2005," in *Public Policy for the Private Sector*, February 2007. Sunita Kikeri and Amit Burman, p. 1. "In 2004-2005, 62 developing countries carried out nearly 400 privatization transactions worth US$90 billion."

developing nations increased by $630 billion in 2006 alone, up from about $400 billion in 2004 and 2005. The BRICs (Brazil, Russia, India, and China) accounted for 70 percent of the increase, with reserves rising by $247 billion in China, $120 billion in Russia, $39 billion in India, and $32 billion in Brazil. International reserves held by all developing countries increased from less than 10 percent to almost 25 percent of their GDP over the past 10 years. China's reserves are now in excess of $1 trillion—its share rosing from 25 percent in the late 1990s to 40 percent in 2006—while Russia's share increased from under 2 percent to 11 percent.[23] Given the scale of such reserves, one could imagine, say, China, India, and Russia surpassing ever more countries in aid donations and tempting recipient nations to bypass the conditionality of DAC relationships.

There are several reasons why this will not happen on a wholesale basis. From an aid recipient's perspective, it makes little sense to reduce the number of nations in one's donor base. Clearly, dealing with two to three dozen aid donors simultaneously poses administrative headaches. But it also provides a hedge against the fickle nature of individual donors. Some donors honor their pledges, some do not. Some disburse their funds on time, some do not. Some donors are genuine partners, some are not. All the more reason why a broad, diversified donor base serves an aid recipient's long-term interests better than reliance on a single donor or small group of donors.

Some nations, of course, do not have the option of accessing a wide base of donors. Countries such as Sudan, Zimbabwe, and Angola have such poor records on human rights or corruption that many aid agencies eschew doing business with them. However, as the case of Sudan demonstrates, this does not entirely exhaust their options. Sudan, like several other African nations, has been able to bargain away access to its natural resources in exchange for financial, trade, and military support from China. China attaches its own strings in the form of geopolitical conditionality and project-specific conditionality (see box below). At the geopolitical level, China has succeeded in getting several nations to drop their diplomatic recognition of Taiwan in favor of relations with Beijing. And when nations cooperate, China reciprocates. China, for example, has opposed U.N. sanctions against Khartoum over its behavior in Darfur, defended Sudan from any external criticism of its human rights, and denied complicity in fueling the ongoing violence there. Chinese Deputy Foreign Minister Zhou Wenzhong said, "Business is business. We try to separate politics from business. Secondly, I think the internal situation in the Sudan is an internal affair, and we are not in a position to impose upon them."[24] Sudan, meanwhile, has granted wide-ranging access to Chinese arms dealers, companies, contractors, and government-owned banks. At the project level, China has insisted that Chinese companies be awarded contracts for projects funded by Chinese aid agencies or Chinese government-owned banks. Nonetheless, there are two limiting factors to this type of aid model. First, it is overwhelmingly associated with the development of oil, gas, timber, and other natural resources that are of critical importance to the growth of the Chinese economy. Second, the Chinese model of aid dispenses with global standards – environmental, social, labor, and human rights – that many developing nations now recognize as essential to participating in the mainstream global economy. Thus, while

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[23] *Global Development Finance,* Pages 21, 39.

[24] Howard W. French, "China in Africa--All Trade, With No Political Baggage," *The New York Times*, August 8, 2004, page A12.

China is likely to penetrate a handful of nations deeply with its aid, it is unlikely to have the broad, multi-sectoral reach of established multilateral aid agencies.

TYPES OF AID CONDITIONALITY

Conditionality is a pliable term, and commentators often mean very different things when using the term. As non-DAC donors increase their aid in the coming years, several types of gaps in conditionality could emerge:

Geopolitical conditionality. When recipient nations are engaged in human rights abuses, repressive behavior, or cross-border aggression, donor nations often withhold aid as a sanction. However, if new non-DAC donors are willing to provide aid funds to the regime – concessional or nonconcessional – they can help sustain it in power. China, for example, has continued to provide military aid to both Sudan and Zimbabwe despite their horrific human rights records.

Structural adjustment conditionality. Multilaterals and bilaterals often attach policy reform conditions to lending for donor nation government programs. For example, concessional financing will be predicated on trade liberalization, freeing agricultural prices, reforms of the national financial system, or other wide-ranging changes in economic or budget policy.

Sector-specific conditionality. Certain sectors, such as the extractive industries sector, generate tremendous revenues for national, state, and local governments. Often, these revenues are illegally diverted for personal use, bribes, the purchase of paramilitary weapons, or other illicit uses. Some 20 countries have now agreed to join the Extractive Industries Transparency Initiative, which seeks to improve governance in resource-rich countries by verifying and publishing company payments and government revenues from oil, gas, and mining.

Project-specific conditionality. Many of the major infrastructure, energy, and water projects in developing nations are financed as free-standing project finance deals rather than government initiatives. In recent years, the World Bank Group has increased the conditions it places on its project finance deals, including for example labor, social, health, and environmental standards. These conditions have gained more force as they have been adopted by some 50 project finance banks, including some of the world's largest such as Citigroup, ABN Amro, and Royal Bank of Scotland.

It is important to remember that many low-income nations have a significant amount of sunk costs associated with participation in the Consensus Model. Preparing PRSP papers and retooling systems to integrate planning, budgeting, and aid forecasts is a laborious and time-consuming process. In addition, soliciting and assimilating the views of civil society and the private sector are likely in many cases to change political norms regarding participation. Thus, to reverse years of participation in the Consensus Model could be costly, both financially and politically.

Aid increases by non-DAC nations will be taking place against a backdrop of aid increases by DAC members. Collectively, DAC members have committed themselves to a roughly 60 percent increase in aid from 2004 to 2010, reaching a level of $130 billion by

2010. With the proportion of DAC aid to global aid already at 95 percent, there is unlikely to be a precipitous change in the proportion of DAC aid to non-DAC aid.[25]

Technical expertise and effective standards based on global experience are often critical to the effective use of aid funds, and the bilaterals and multilaterals within DAC are the repositories of that experience. Thus, rejection of DAC donors carries a risk that an aid recipient will repeat mistakes that have been made in other nations.

MARKET-LIKE COMPETITION

The lure of accepting money from non-DAC donors may be significant for some aid recipients in some instances. However, for most this will not entail a simultaneous rejection of DAC aid across the board. Rather, aid recipients will simply look to diversify their portfolio of donors. Uganda is a prime example. A recipient of substantial and increasing amounts of aid from China, it is also fully engaged with DAC donors and midway through its Poverty Reduction Strategy Paper process.

A more powerful force in the aid industry will likely be the force of competition among all donors. Evidence of such competition is already apparent. As early as 2005, well ahead of the rise of non-DAC donors, the World Bank Group, among others, was already keenly aware of the competition it faced from rival development banks. The Bank cut its loan fees and raised its lending limits, pointing out: "The World Bank lends to middle income countries on terms that are financially competitive when compared with other multilateral development banks."[26] More recently, a World Bank Group consultant told *The Washington Post*, "The market is [driving reform]," he said. "We are desperate for clients" and ready to adapt in order to secure and keep them. "The middle-income countries know how to use us," he added. "We can no longer go with the recipe of the month of what is supposed to lead to development (because) they are defining their own development paths."[27]

Viewed as a quasi-market, the aid industry is now maturing. For most of the postwar years, transactions were supply-driven by a handful of agencies. In the second phase of the market evolution, significant numbers of agencies entered into the industry but product type and price were still determined by suppliers. Consumers, meanwhile, lacked the ability to compare and contrast the products or to affect prices.

We are beginning to see, in some cases such as nonconcessional aid, the third stage of market development, in which the consumers – in this case, the aid recipients – are beginning to have a modest influence on the pricing and product behavior of suppliers (aid donors). An interesting trend to track in the coming years will be whether concessional aid

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[25] "Will 'Emerging Donors' Change the Face of International Cooperation?" Overseas Development Institute Lecture by Richard Manning, 9 March 2006.
[26] "World Bank Cuts Loan Fees, Raises Lending Limit for Big Borrowers," Press Release No. 2006/051/S, The World Bank, August 9, 2005.
[27] "IMF, World Bank Face Irrelevance," *The Washington Post*, Marcela Sanchez, Friday, May 11, 2007.

suppliers begin to compete with one another on the basis of brand and other non-price attributes.

THE ROAD AHEAD

The odds of the aid industry becoming more centralized (i.e., dominated by a small club of agencies sharing an agenda) or more realpolitik (i.e., powerful nations dictating the development agenda) are diminishing. More likely, we will be living in a world where the aid industry is more pluralist and fragmented.

At the political level, considerable progress has been made in incorporating non-DAC donors into the high-level discussions of the DAC. Indeed, on May 17 the OECD Council took a landmark decision to offer enhanced engagement programs, with a view to possible membership, to Brazil, China, India, Indonesia and South Africa. However, substantial gaps remain at the lower tiers of the Consensus Model – such as in how many nations are participating fully in the Paris harmonization process and how well nations are effectively integrating aid flows into their national development planning.

Several reforms would be helpful. Foremost, a concerted effort to increase the reach of best-practice sector and project-level standards in the developing world, such as the Extractive Industries Transparency Initiative and the Equator Principles, would have far-reaching developmental impact and would help to diminish the performance gaps between DAC and non-DAC initiatives.

Second, country ownership of aid programs is strongest in instances where local and national development goals and processes mirror those of donors. However, disparate line agencies within a recipient government often have sketchy and incomplete information about the aid programs being proposed across their country. Thus, targeted interventions that provide technical capacity so that governments can gather comprehensive information about donor operations in-country and compare and contrast donor performance would be helpful. Last year, two nongovernmental organizations, Oxfam GB and Debt Relief International held workshops among 12 aid recipient nations and were asked to evaluate the strengths and weaknesses of different aid agencies. The findings were illuminating.[28]

Finally, independent impact assessment is very rare among aid agencies. Pooling funds at the DAC level or allowing cross-agency assessments of aid impact would dramatically increase the credibility of such studies and enable aid recipients to be much more effective consumers of aid projects.

The Consensus Model is an imperfect process and partially fulfilled aspiration. However, it has captured one trend that will continue to grow alongside the numbers of donor nations: aid recipients will have more choices, and those choices will bring market power. One of the most powerful interventions capable of influencing market behavior is

[28] "Reform of the International Aid Architecture: A Role for the Commonwealth," A paper prepared for the Commonwealth Secretariat by the Overseas Development Institute, August 2006. Pages 7-8.

the introduction of credible information about performance. That should be a higher priority for those who seek to coordinate and harmonize.