

A Dialogue on Global Development Aid Strategies

Tuesday, June 10, 2008, 2:30 pm — 5:30 pm

The Brookings Institution, Saul and Zilkha Rooms, 1775 Massachusetts Ave, NW, Washington, DC

Official development assistance has risen sharply to over US\$100 billion in each of the past two years. Non-governmental organizations, foundations and other private groups, along with a growing number of multilateral agencies and new bilaterals have also increased their role in alleviating global poverty. But with the proliferation of new actors and instruments, aid flows have become fragmented and increasingly volatile. There is a pressing need for the actors to address the issues of whether and how to reform the current aid architecture for greater aid effectiveness.

On Tuesday, June 10, the Wolfensohn Center for Development and the Development Centre of the OECD co-hosted a [discussion on global development aid strategies](#).

The first session focused on the shortfalls of current public aid architecture, particularly in the three areas of ownership, fragmentation and volatility. “Ownership” of development policies funded by aid remains a donor-driven concept and much needs to be done in giving recipient countries – and more importantly, citizens of the recipient countries – the avenues to design, implement and monitor these policies. This not only entails providing them with a choice in development strategies, but also helping these countries generate local solutions to their own development problems. On one hand, more choice of aid sources and delivery systems for the recipient country could be seen as a good thing; on the other hand, aid fragmentation amplifies transaction costs and may undermine the recipient country’s ability to make informed policy choices. Many of the new players offer choice in technology, approaches and priorities, which aid recipient countries find useful.

Another facet of the current disbursement of aid that requires immediate attention is the volatility of aid flows. The data on official aid reveal that the flow of aid from the recipient country’s point of view is more volatile than any other macroeconomic variable; this volatility is common across recipient country types and so largely attributable to undesirable donor practice. Using financial asset-pricing models, the deadweight loss of this volatility is measured to be 15% of the total volume of aid (or \$15 billion annually) and manifests itself in a country’s

decision to distort away from growth-enhancing, long-term investments because of the uncertainty of continued financial flows. This quantitative measure of the cost of volatility to the recipient country allows donors to be fully transparent about the costs that they are incurring in terms of aid dollars, and provides a platform for political decisions to be made to securitize these volatile aid flows.

The discussion revolved around “what next”? Some argued that the Paris Declaration was steadily bringing improvement in donor practices, with good prospects for improving the quality of national development strategies, designing and administering Technical Cooperation jointly with recipients to improve local capacity, untying TA, using country financial and procurement systems, and generally providing better ex ante forecasts of aid flows. But others wondered if the Paris Declaration, by promoting harmonization, would lead to more choice for recipient countries or merely to increased transaction costs. As one blunt comment put it: “Is this system out of control? How do we achieve change?” Experiences of the distance between the Paris Declaration and donor coordination on the ground were recounted. There were also calls for separating the development agenda from the global public goods agenda so as to align better with the reality that for large middle income countries, central to issues like climate change, aid had become irrelevant.

Participants agreed on the need to identify concrete measures for program quality and donor performance and, at a minimum, to improve data on donor disbursements and indicators of effectiveness. There could also be further innovation in aid instruments that reduce the administrative burden on the recipient countries while also reducing volatility.

The second session discussed the role of private aid and NGOs in the international aid arena. Due to the burgeoning growth in the number and finances of NGOs, there is a growing recognition that NGOs, besides being merely implementers of development programs, are increasingly key donors as well, with the largest having already surpassed many official donors in the volume of assistance. Hence, integrating their development strategies with national plans is of critical importance, but is done in an ad hoc fashion because no mechanisms exist to facilitate this.

There was a debate about whether NGOs should develop a declaration similar to the Paris Declaration on Aid Effectiveness to promote better coordination, harmonization, alignment and mutual accountability. Some NGOs already abide by a set of norms and best practices and have pushed their accountability towards local aid recipients. But fundamentally, it may be difficult to coordinate too much as NGOs and other private players have different missions and goals. Some argued that advocacy, by definition, could not be a coordinated or harmonized function.

The speed with which the NGO community has morphed from being executors of official aid to being financially independent has been an extraordinary

development of the last five years. Alongside the flow of dollars, there has also been a change in approach. This has meant that private aid is fundamentally different from official aid, being more poor- and development-centered. Ironically, private aid organizations now appear to be more engaged in programs that take a longer-term perspective than official aid which is increasingly oriented towards short-term, “projectized” results. Private aid donors have specialized technical expertise on the ground, often in areas where official aid does not reach, (like conflict zones), but must now become more professionalized. Best practices, evaluation, conduct norms and other mechanisms to engage with official aid donors could help private aid donors leverage their impact. A better metric to measure effectiveness would be useful.

A spirited debate on accountability emphasized the different nature of private and official aid, with the former being more accountable to the poor rather than the nation state. But private donors must concern themselves about the impact they have on the relationship between the State and its citizens. There was a strong call for NGOs to differentiate their strategy according to country circumstance, and in some instances to move away from service delivery as this could undermine efforts to build stronger local capabilities. A divergence between European and US based NGOs on this approach was evident.

The sense of major changes in the aid environment and a political window for taking bold new directions in the next couple of years was palpable. To influence these changes, more efforts are needed on mapping whom does what, where, in which sectors, and to what end. Much can be learned from the current international humanitarian aid architecture. Larger amounts of money going towards aid, in different forms and through different groups, naturally raise the issue of effectiveness and comparative advantage. Building local capacity to manage this is a critical dimension of change. But who is the local stakeholder? Both aid recipient governments and their citizens are important voices, but aid is not truly accountable to either of these groups as yet.