

Aid Effectiveness Workshop Berlin, June 15-16, 2009

Convened on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ)
organized by the Development Policy Forum InWEnt - Capacity Building International, Germany
and the Wolfensohn Center for Development at Brookings Institution, USA

Co-chairs' Summary

Background and context

Around 40 participants gathered in Berlin to discuss aid effectiveness. The group comprised officials from partner countries, bilateral and multilateral aid agencies, non-DAC bilaterals, the private NGO sector and think tanks from the North and South.

The diversity of the group reflects the changing and increasingly diverse landscape that is reshaping the key issues in aid effectiveness. It is a landscape characterized by heterogeneity of partner countries (fragile states, geostrategic states, LDCs, HIPCs), proliferation of development partners (emerging development partners and non-DAC bilaterals, vertical funds, private sector and foundations), expansion of modalities of aid delivery and broadening of the range of issues to be considered in the chain linking aid effectiveness, development cooperation and engagement and development results.

Current situation

Aid volumes have grown, but aid is increasingly fragmented. The Accra Action Plan added a couple of broad new themes to the Paris agenda: coordination in fragile states, the role of the private sector and of NGOs. Quite a lot has been achieved, even though progress is too slow: partner countries' systems for managing public funds have improved, technical cooperation is better coordinated and aligned and aid is increasingly untied¹. More importantly, an institutional framework has been established to tackle aid effectiveness in a dynamic way. The DAC Working Party on Aid Effectiveness is a broad international partnership that has taken on a broader remit than that of simply improving development partner practices. Individual partners are starting to implement change on the ground: a division of labor between EU member countries resulting in some reduction of transaction costs in partner countries and strengthening of policy dialogue; better crisis-response (for example, Ghana); evidence-based learning; adaptation and innovation in the new landscape.

Participants focused on two key issues. Firstly, continued implementation of the Paris/Accra agenda; secondly, construction of a light-touch governance framework that could give a greater voice to non-DAC, private sector and partner countries and expand the scope for "thinking out of the box" on challenges to the current aid effectiveness (AE) agenda and issues that go beyond it. Participants believed that tackling these issues had both political and technical or implementation dimensions. Some workshop participants argued for a change in terminology: "development partners" instead of "donors", and "partner countries" instead of "recipient countries".

¹ 2008 Monitoring Survey of the Paris Declaration.

Political dimensions

a. Sense of urgency and ministerial engagement

One obstacle to speedier implementation is the challenge of keeping ministers more closely engaged in the AE agenda follow-up – which calls for a sustained and long-term commitment. The political sense of urgency is hard to sustain, especially when other issues seem less technical and politically more attractive.

Two proposals were put forward: Firstly, the need for stronger communication in simple language about the link between aid effectiveness and development effectiveness; secondly, the need for evidence of the benefits accruing from improved aid effectiveness. Without action on these fronts, there is a concern that public support for official development assistance could slip. Several participants felt the need to express outcomes as the result of a broad partnership, rather than directly attributing benefits to any one agency or country (“flying the flag”) in order to avoid implicitly undermining the objectives of ownership, alignment, harmonization and mutual accountability.

b. Partner country ownership

The rhetoric on ownership is stronger than operational reality. Many substantive issues lie behind this – the lack of country capability and capacity to articulate well-founded strategies, the limited number of actors lobbying for their cause and the need to strengthen internal accountability – but ultimately the issue boils down to trust in terms of the room to maneuver to be given to partners. Even within strong institutional frameworks for coordination, development partners often monopolize the debate. The political and cultural realities of the aid relationship and the environment in which partners act cannot be overlooked. In the discussions, partner countries focused on three operational elements of ownership: conditionality, budget support and capacity development.

The priorities seem to lie in a commitment to greater use of country systems when these pass a critical minimum standard, greater efforts to improve country systems, and, in the short run, reduction of conditionality and expansion of generalized budget support. To give more teeth to ownership and create a level playing field among development partners, new options could be usefully explored. Ideas included considering whether an international ombudsman or an international peer review process (third-party arbitration) could be developed or added to existing mechanisms like the DAC peer review, in order to ensure that the dialogue on conditionality is consistent with ownership best practices.

Ownership is one of the main priorities for the Working Party (WP) on Aid Effectiveness.

c. Mutual accountability and results agenda

Mutual accountability is another priority for the WP on Aid Effectiveness. More countries appear to be experimenting with Performance Assessment Frameworks (PAFs) and gaining experience with a mixture of quantitative indicators and qualitative judgments. In some countries, greater transparency regarding the underlying objectives of ODA – collaboration in other spheres in addition to development – is needed before a real accountability framework for ODA can be developed.

Transparency and mutual Performance Assessment Frameworks (PAFs) are two tools through which mutual accountability can be strengthened. However, much remains to be done to promote a more effective approach to developing and monitoring credible results agendas. The discussion also raised the issue of bringing in a stronger focus on results on both sides in terms of “delivering real things to real people” (e.g. jobs) and of putting increased effort into strengthening other accountability frameworks (parliament, civil society, private sector associations, interest groups, intermediary institutions etc.).

d. Policy coherence

Coherence with trade, investment, climate change and security policies could promote the link between AE and development effectiveness. Processes for ensuring coherence are a major gap in the current system. Lack of coherence is a critical factor in fragile states. Far too often we continue to think of aid effectiveness only in the corridor of government-to-government aid and not beyond, even though Accra set important new signposts. This also creates a wedge between aid strategies and private sector development strategies. Coherence with the climate change agenda may have far-ranging implications for aid effectiveness work, given the potential magnitude and transmission channels for resource transfers and the challenge for existing systems to cope effectively with today's aid .

New instruments are needed to develop coherence. For development partners, coherence is becoming a stronger theme – the most recent example being the creation of a Global Engagement Directorate in the United States. Multi-stakeholder alliances, public-private partnerships and new co-financing arrangements are mechanisms through which coherent trade, investment and aid policies can provide an environment conducive to private sector development and poverty reduction.

e. Multilateral governance

The proliferation of multilateral institutions, funds, facilities, and other official agencies requires a new framework for a light-touch global governance structure. At present a number of coordination platforms co-exist: development partner platforms where coherence is worked out in the capitals of developed countries; vertical funds where coordination is based on a thematic approach, sometimes in partner countries and sometimes in headquarter locations; and partner country platforms, where decentralized agencies coordinate efforts under the leadership of the partner country. With more small-scale development partners becoming involved who lack a significant presence in the partner countries, the rules and processes of coordination need greater clarity.

There is an urgent need to simplify what is an overly fragmented system. There is nothing wrong with diversity if it results in innovation and fresh approaches and resources, but equally – for maximum efficiency – more attention should be paid to exit strategies and to a more competitive approach towards resource allocation, including a more selective approach in the use of one or the other of the more than 260 existing multilateral institutions and agencies. If it were possible to allocate resources in a competitive way across multilateral agencies based on partner country needs, effectiveness and standardized unit cost measures, this could alter incentives in a beneficial way.

Technical/implementation dimensions

a. Fragmentation, harmonization, overlap and waste

Lack of clarity on the division of labor can lead to overlap and waste, especially in the case of economic work, for example on the impact of the recent financial crisis. Fragmentation may be a symptom of deeper issues, such as a lack of priorities or a desire for “flag-flying” and differentiation among development partners and private aid providers. There is a serious collective action problem and ambiguity when it comes to identifying leadership at country level if the partner country does not accept that leadership role.

Some attempts are already underway to map who does what and where – at least among official development partners – and such maps enable the creation of a better division of labor. Several EU countries are moving strongly in this direction and taking an overarching approach towards a country-led division of labor including traditional official development actors. But such exercises still leave out non-DAC development partners and private NGOs and foundations, which can be significant in some sectors. There remains an issue as to whether development partners should try to establish their own division of labor if partner countries do not show leadership in this field, possibly managing diversity for their own benefit. There is also an issue as to whether existing partnerships between private actors to enhance aid effectiveness could lead to (voluntary) standards for these actors.

Sizeable transaction costs for partner countries have already resulted in measures to ban missions for specified periods (“quiet periods”, especially during times of budget preparation) and more actively manage the interaction with development partners. Some countries have instituted a “single funnel” approach, with interaction with development partners concentrated in one agency or unit. That approach can reduce transaction costs but also risks losing support of sectoral ministries, which can no longer directly negotiate their engagement with external partners. In some instances, sectoral approaches have also worked well, bringing together a broad range of stakeholders around a coherent program. But coordination is expensive and an assessment of the costs and benefits of coordination is needed. A more systematic focus by development partners and aid agencies on scaling up successful interventions, including through multi-stakeholder coalitions, needs to be explored. Easy-to-understand targets from the partner countries’ perspective (e.g. quicker disbursements, higher flexibility, greater transparency) should be made a priority.

b. A focus on predictability

Issues of volatility (commitments and disbursements fluctuating over time), lack of predictability (short-term uncertainty over commitments and disbursements) and a gap between commitments and disbursements continue to pose problems for budget planning, cash management and sustainable policy implementation in partner countries. Occasionally, flexibility and responsiveness to shocks are also required in the partnership. The reality, however, is that disbursements tend to be pro-cyclical with respect to the budget and often slow and cumbersome.

Experience with long-term engagements and long-term MDG compacts appears to be positive. Other instruments for focusing more on predictability of commitments and disbursements, “time to delivery” and responsiveness to shocks would be welcomed.

c. The HQ/field disconnect

Political commitment to improving aid effectiveness does not always translate down to the level of field and operational staff. Time-lags mean that old-style behavior persists long after agreements have been reached in principle to change the nature of the development partnership. The status quo may be too comfortable for both sides. Pressure on the

development partners to shift the money is not always balanced by a similar incentive scheme that leads towards higher effectiveness, learning, accountability and responsibility. Partner countries often have too little incentive to set priorities on the use of limited resources themselves. Hard-wiring the agreements reached at international conferences into development agencies and relevant staff on the partner country side through staff and management incentives and other organizational practices is desirable if real change is to happen. At the same time, HQ discussions need to be grounded in structured learning about what is actually happening in the field. This goes beyond quantitative indicators (“AE is not just a number crunching exercise”) to more nuanced judgments (the issue of M&E indicators needs more attention). Partner countries have more scope to use the aid effectiveness agenda to hold development partners accountable for their behavior.

Some agencies have already introduced explicit incentives into staff and managerial evaluations in order to reflect AE principles. But tools for working on that agenda are still missing. Conflicts of interest need to be considered better. South-south cooperation as a learning device is gaining ground. Feedback from clients and participation by developing partners and experts in systematic reviews is encouraged. This feedback loop is strengthened when capacity building is integrated into operations, rather than just viewed as a stand-alone activity.

Next steps

The workshop demonstrated the need not to lose focus in the long list of “to-do’s” from Paris and Accra and at the same time to keep thinking ahead in response to new challenges. Participants will incorporate the issues raised at the workshop into their own agendas, implementation processes and academic and policy discussions. Along with the DAC Working Party process, there are several upcoming opportunities that workshop participants can use to reinforce the message of change: Sweden and Spain will take up aid effectiveness during their up-coming EU presidencies; the Commonwealth Finance Ministers will address the subject in September; Korea will host the G20 Finance Ministers and Heads of State meetings in 2010 and there will be a series of events leading up to the High Level Forum (HLF4) in Seoul in 2011. In the short-term, a follow-up event to the Berlin workshop is envisaged in South Korea for November.

Some specific questions were raised by participants (see below). Some of these questions and issues will be addressed in the work of the clusters and task teams of the Working Party on Aid Effectiveness. Other issues, especially when they require some thinking beyond the “to-do’s” of Paris and Accra could well be addressed in future workshops and events that focus on trying to develop answers. Those may be developed through two tracks: a research track and a networking track.

Networking will be facilitated by a web-site that will collect the many references cited during the workshop (such as the Swedish or German Action Plan on Aid Effectiveness, the DFID approach to introducing staff incentives, experiences from partner countries and current academic work) and provide a tool for keeping track of what others are working on (inasmuch as this is not already available from the WP-EFF/DAC website).

The research track depends on the willingness of various think-tanks represented at the workshop to pursue selected topics. The workshop clearly identified priorities of practitioners that should facilitate the choice of policy-relevant research topics (e.g. the need for more reliable qualitative monitoring indicators on aid effectiveness), keeping in mind calls to development partners and think tanks to take costs, demand and the value-added of research and studies more into account.

Research Questions Raised at the 'Aid Effectiveness' Workshop in Berlin, June 15-16

Research gaps and possible responses were identified in seven areas:

1. **Gap between promises and delivery**

Partner Countries (PC) see a gap between what has been promised by development partners (DP) and what has been delivered in terms of flexibility, predictability and speed of support (including general budget support and decentralization of DP staff to the field).

Potential research: Country case studies documenting how far donor promises have been met or not, including an analysis of success stories (such as Bosnia & Herzegovina) and implications of flexible donor processes for effective delivery.

2. **How to establish greater trust between PCs and DPs.**

The Paris Declaration and Accra Agenda have declared the need for more Global Budget Support (GBS), less conditionality and greater ownership by PCs of ODA-funded programs. However, in practice this is often difficult to implement, due to a fundamental lack of trust between the partners. An approach that takes into consideration more explicitly the political realities of DP (parliamentary resistance, need for tracking of specific outcomes, etc.) and of PC (limited capacity, lack of political will, etc.) may be needed.

Potential research: A more differentiated approach, which distinguished between different types of PC (according to capacity, commitment to development, etc.) and which is more transparent on what DP and PC respectively are willing and able to do, could be explored with the goal to establish greater trust among partners.

3. **Mutual accountability**

The instruments to ensure mutual accountability between PCs and DPs are not well developed. Incentives need to be found that change behaviour on both sides.

Potential research: Explore the options for changing incentives, including: reform of the DAC peer review, DP staff incentives, funding conditions for multilateral institutions linked to performance, setting up an arbitration process or ombudsperson

4. **Coordination, harmonization and division of labour**

Ideally, the PC would be in the lead on coordination, harmonization and division of labour among DPs in a particular country. In many countries, however, PC capacity is constrained. In this context, we still have little knowledge about how to overcome the collective action problem among DPs (since no-one is clearly in the lead). In any case, all partners are constrained by the lack of information on what every one else is doing.

Potential research: Improve information on DP activity and effectiveness; identify best practices and evaluate different instrumentalities (joint country assistance strategies, joint sector strategies, SWAps, etc.); quantify costs and benefits of coordination; assess the EU experience with division of labour; evaluate efforts to build PC capacity for coordination; draw lessons from the Asian development experience.

5. Role of “vertical” funds and initiatives (incl. Climate Change)

Vertical funds and initiatives have become more and more important, obvious e.g. in addressing climate change. This can create tension with the integrated approaches at DP and PC level. A few examples of problems and successes are available, but there is little systematic knowledge about the effectiveness (or lack thereof) and collateral impacts of vertical funds and initiatives. With the possibility of major funding going towards climate change abatement, the links between ODA and climate change funding needs to be explored.

Research: Systematically assess experiences with vertical funds (e.g., Global Fund or Fast Track Initiative) considering also the IFI reforms. How can the aid effectiveness agenda be linked with the climate change funding initiatives?

6. The role of private development partners

Private initiatives acting in development cooperation feel frequently discouraged by official coordination and harmonization processes. Private partners tend to approach the development challenge in terms of specific sectoral needs, in terms of value chains that link interventions to specific outcomes, and in terms of systemic concerns.

Potential research: A better understanding of private DP activities, modalities and experience (including through systematic evaluation, which is currently missing) is needed. The role of multi-stakeholder alliances (combining private and public actors, local and international partners, etc.) around specific programs needs to be explored, including best practices in terms of sharing costs and risks among partners.

7. Improving Communication about Aid Effectiveness

At the Berlin workshop it became apparent that communication outside the box of development actors is needed. There is a great need to engage political leaders, e.g. parliamentarians, in PC and DP as well as a wider public in the debate on development related issues.

Potential research: How could better and wider communication of aid and aid effectiveness issues and solutions be achieved?