

# The Second International Policy Workshop on Aid Effectiveness

**Seoul, Korea  
November 4-5, 2009**

Hosted by the Korean Ministry of Foreign Affairs and Trade (MOFAT) and the Korean International Cooperation Agency (KOICA) in cooperation with the German Federal Ministry for Economic Cooperation and Development (BMZ); the Wolfensohn Center for Development at Brookings, United States; idasa – an African democracy institute, South Africa; the German Development Institute (DIE) and the Development Policy Forum, InWEnt – Capacity Building International, Germany

## **Executive Summary**

### Background and Context

Thirty-three participants attended the second International Policy Workshop on Aid Effectiveness hosted by the Government of Korea in Seoul, Korea, to discuss the role of emerging development partners in aid effectiveness. The workshop benefited from the prior discussions at the third Seoul ODA conference held on November 4, 2009. The ODA conference also provided an innovative format to disseminate and discuss the aid effectiveness agenda with different statal and non-statal actors including university students, an approach that should be more widely replicated. In addition to multilateral and bilateral agencies and donors, the international policy workshop benefited from the perspectives of non-DAC bilateral aid agencies, think tanks and partner country representatives.

Building on the first workshop that was held in Berlin and was a scoping exercise that highlighted emerging issues of aid and development effectiveness in a world with a greater diversity of development partners and with new development challenges, four topics were selected for discussion during the second workshop: (i) Asian development experiences; (ii) emerging donors; (iii) new approaches; and (iv) partnerships for development. Each of these is significant in terms of developing the agenda for the HLF-4 in Seoul in 2011.

### Asian development experiences

An overview of selected Asian development experiences and subsequent discussion showed that aid can act and has acted as a *catalyst* of Asia's development success, especially that of Korea. In the early days, Korea received grants, subsequently graduating to larger volumes of concessional credits and loans from international financial institutions, before eventually coming to rely on FDI (foreign direct investment), bonds and other private commercial flows. Korea went from recipient to donor within one generation.

Aid, if used selectively, can help support the developmental effects of good governance and other factors that have proved key to development processes (democracy, economic growth, social progress, care for the environment, addressing inequalities of income and opportunity within and between countries, gender equality, human rights and sustainability were also referred to). Even in some country success stories, governance was not consistently good. Key lessons from Korea

and other Asian countries are that different paths have been followed, but that *self-reliance* (“ownership,” in modern parlance) plays an important role throughout the process of developing and implementing policies and cooperation programs and projects. Possible factors that were raised included the market-oriented developmental state model (strong leadership and capable bureaucrats), an external enabling environment (free access to export markets, peace and security guarantees, etc.), human capability development with think tanks, scientific institutes and incentives to bring back qualified students studying abroad (most of whom have benefited from scholarships supported by aid), and being quick to embrace export opportunities.

More recent examples of Asian success have underlined the continuing need for large-scale development financing (which is usually provided by non-concessional loans and FDI) and hence for a rapid *exit from ODA* and for *indigenous national institutions*. But there were warnings against being overenthusiastic in the use of Asian examples as development models for others to follow. Even success stories like Korea experienced phases of inadequate democratic governance in the early stages of development. Nevertheless, if development is expressed in GDP terms, then Asia has enjoyed unparalleled development success. However, the participants also stressed the need for aid to enable inequalities of income and opportunity to be addressed and to ensure a stable supply of global public goods.

While aid may have acted as a catalyst, increased numbers of development partners have led to aid coordination in Asia becoming more time-consuming and expensive, and there are visible signs of fatigue with the complexity of the aid effectiveness agenda. Asia is an example of the importance of shifting the focus of the debate from aid effectiveness, whose impact cannot be isolated from other policies, to development effectiveness which takes better account of the various other sources of cooperation that can support development outcomes.

### Emerging Donors<sup>1</sup>

China and other emerging economies have become significant providers of development assistance. China may now be providing over \$4 billion a year in foreign assistance as part of South-South cooperation (including Exim-Bank loans), although it is usually provided in packages that include ODA-relevant and non-ODA resources. These emerging donors have a different perspective from traditional donors: there is a greater focus on a “sincere” development partnership based on mutual respect and non-interference<sup>2</sup> and more appropriate and cost-effective skills and technologies, the key concept being development cooperation, rather than aid.

The practices of emerging donors like China are not inherently opposed to the Paris Declaration principles. Ownership and partnership are said to be taken seriously due to the absence of policy conditionality, but country systems are not used, as many of the projects are provided on a turn-key basis. Alignment with partner country plans is also said to be the norm. Managing for results is illustrated by the speed, flexibility and cost-effectiveness of implementation. There was willingness to participate in development partner meetings under the leadership of the partner country if this was the wish of the partner country. Partner country opinions expressed in the workshop (and their reports on project effectiveness) were favorable with regard to south-south cooperation modalities.

On the other hand, South-South development cooperation partners tend to have more tied aid and to follow partner country standards (regarding labor, the environment and financial management) rather than trying to raise the bar. They do not usually use the financial management systems of partners (although, as one participant pointed out, this also depended on how much the partner insisted on this point) and have limited transparency on aid, partly

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<sup>1</sup> This term is used for convenience (and to conform to common usage) to describe development cooperation from emerging economies, but some of these economies, like China, do not consider themselves as donors but as equal partners in development. A satisfactory alternative wording has not yet been adopted.

<sup>2</sup> Cambodian PM Samdech Hun Sen is reported as saying: “[Chinese aid] has helped Cambodia strengthen its national sovereignty.”

because they focus on cooperation outputs rather than inputs. In the case of China, cooperation is managed by the Ministry of Commerce, partly for historical legacy reasons, which permits a joint approach across aid, trade and investment.

The case of India highlighted the challenge of being an emerging donor while at the same time having to address the needs of more than 300 million poor people in the population through internal development efforts. It also highlighted the differences between approaches, with India being a long-standing democracy that has taken its time to open up and develop into an emerging development partner. India today is ready to “grow out of its teenage pangs” and to show leadership and raise public awareness. India was said to have used aid – even though its volume was relatively limited – strategically for innovation and to build institutions, with a commitment to scaling up best practices. Thanks to its large pool of scientific personnel and its mobile young population it can still take more responsibility in providing capacity-building support to Southern partners.

Emerging donors are still learning about aid effectiveness best practice and have collaborated with traditional donors on projects where partner countries are in charge and driving coordination. They have had some issues with the sustainability of capacity development (training does not work in the absence of sound local institutions), have abandoned projects in productive sectors (e.g. industry) when the competent bureaucracies that are critical to project success were absent, and have found that reliance on partner country ownership only works where leadership is strong. It was felt that transparency will improve over time. South-South cooperation starts with political agreement on the nature of the cooperation and then continues with technical discussions on the modalities, whereas traditional aid donors tend to do the reverse, starting with a technical review of the projects and then proceeding to negotiations and political agreement.

The workshop made it clear that emerging donors or development partners have different perspectives and use different approaches: some – like Korea – have applied for DAC-membership and are ready to learn and take responsibility in using international best practice on aid, while at the same time still taking the approach of an emerging donor influencing the traditional donor and DAC debates. Others – like China – see themselves as Southern development partners sticking to principles of mutual respect. They are nonetheless eager to react to partner country demands, becoming an even more trusted partner that learns from the practices of others, while at the same time providing bundles that include aid, economic cooperation and other interests (e.g. regarding natural resources), trying to create win-win situations. All emerging donors can provide important transition experience. However, a one-size-fits-all approach to emerging donors will not be adequate. Further dialogue and research are necessary.

### New Approaches

The slow evolution of ODA calls for a shift from aid as part of donor-recipient relationships towards genuine development partnerships. A variety of new approaches promise to speed up this evolution. South-South cooperation is promising, along with triangular development cooperation, especially for knowledge sharing and regional cooperation. However, questions were raised concerning the possible scope of this form of cooperation. Increasing regional dialogue through the different aid effectiveness workstreams of the DAC Working Party on Aid Effectiveness can help to ensure that greater account is taken of partner country perspectives in development cooperation. The need for more coherence with trade, investment and technology transfers was also stressed (although the legacy of colonial exploitation must be avoided) and provides an interesting comparison to the “packaging” approach of some emerging development partners.

However, it was also pointed out that some aid effectiveness issues could be tackled more or less independently by donors, or by a subset of donors willing to push forward. The EU's work on an operational aid effectiveness framework, which is starting off with guidance on better and more

significant use of country systems, capacity development and technical cooperation as well as division of labor and the reduction of fragmentation could provide new impetus to European development partners' efforts to promote implementation of aid effectiveness principles. Even old-fashioned approaches should not be neglected: why not deepen harmonisation issues that multilateral development banks can work on?

New approaches such as South-South cooperation are quickly being picked up on in different fora. In the case of South-South cooperation, the different activities of the UN system to promote this modality of cooperation are constantly increasing (high-level conference in Nairobi in December, South-South cooperation unit, UNDP support, UNCTAD's work, the UN Development Cooperation Forum). The Accra Agenda for Action has also placed South-South cooperation firmly on the agenda of the Working Party on Aid Effectiveness, with a task force led by Colombia pushing the agenda forward. However, despite the many initiatives, there is no single established forum for international learning and sharing of experiences. South-South cooperation may also be better coordinated in regional groups. It remains to be seen in the next two years as we move towards the HLF-4 whether South-South cooperation as a possibly more effective form of cooperation can go beyond the different initiatives in the past and attract the necessary push from emerging development partners, and whether traditional development partners can play a significant supporting role.

### Partnerships for Development

Concepts of aid are increasingly giving way to concepts of partnerships. These must recognize heterogeneity of circumstances. They will differ according to the recipient partner country, the development partner, the sector and the issue (knowledge transfer versus financial flows). For example, partnerships require partner countries to pay attention to own-revenue sources. A partnership approach also highlights the importance of reducing transaction costs which may be being increased by current practices. Partnerships like triangular development cooperation may achieve good results, but have limited impact and high relative costs if they are not scaled up. Partnerships explicitly recognize the diversity of objectives of development partners. They can be flexible in composition in order to resolve specific development problems. But it was also pointed out that aid effectiveness efforts would need to link up more effectively with broader reform and change management processes and take greater account of issues of power, culture, diverging priorities and vested interests that are often neglected in aid processes.

The aid effectiveness partnership has had the advantage of manageability (in principle) but this has come at the expense of inclusion and scope.<sup>3</sup> Broadening the partnership to one of development effectiveness risks making it unwieldy and could give rise to misunderstandings. A balanced call for a new development cooperation partnership may be the right approach. Such a partnership would be more inclusive of the range of development partners and be more focused on development results. It would need to develop a better public space to include more voices and also manage the relationship with other high-level fora such as the G-20 and the UNDCF. It may not have a single focal point, and a network of partnerships could evolve.

### Next Steps

The international aid architecture is not only witnessing new emerging state donors and development partners. The Accra Agenda for Action also started to reflect on the impact of private partners on aid effectiveness, be it vertical funds, foundations, private sector associations and networks or civil society organizations. The organizers agreed to follow up this new development in a third workshop, probably in late summer/autumn 2010, in South Africa, providing a better opportunity for partner countries to make their voice heard on the key issues. This workshop would also provide the chance to develop practical action-oriented proposals that could feed into the preparations for the HLF-4.

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<sup>3</sup> The DAC Working Party has, however, expanded to include 80 members with a 26-member Executive Committee.