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PHOTO: BUSAN, SOUTH KOREA AT NIGHT

# A Serious Approach to Development: Toward Success at the High Level Forum on Aid Effectiveness in Busan, Korea

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With little more than a half year left to prepare before a key international conference on aid effectiveness in Busan, Korea, policymakers must consider the answers to two key questions: what could success at this meeting look like? And what can be done in the preparation phase to maximize the chances of success?

The fourth High Level Forum on Aid Effectiveness will build on agreements from past years, but this time the discussions are taking place in a markedly different context. In the face of heightened pressures on international aid, the meetings in Busan at the end of the year present an opportunity to finally take development cooperation seriously. The U.S. government in particular could play a critical and catalytic role.

## Context

The 2011 High Level Forum on Aid Effectiveness in Busan is different from the preceding forums in Rome (2003), Paris (2005) and Accra (2008). It must directly contend with a particularly complex mixture of factors. Some are new and some have simply grown too big to ignore, but all are actively mounting pressure on an essential yet weak system of international development support in need of reform:

- First, budget difficulties in the traditional donor countries that provide major development support likely mark the end of an era of growing official aid budgets. Surveys by the Development Assistance Committee of the Organization for Economic Cooperation (OECD/DAC) suggest that aid growth will slow to just two percent a year from 2011 to 2013. Consequently there is a search to leverage aid with other resources and strategies for development. With tighter aid budgets, there is greater attention than ever before on improving the dysfunctional international aid architecture to make it more efficient, effective and accountable.

- Second, newly prominent actors in development—from official partners like China to international NGOs to private corporations—have become large in financial terms, changing the nature of the aid landscape. While this phenomenon has been unfolding for years, the degree to which it is treated seriously in Busan will determine the relevance of the High Level Forum.

- Third, the Busan High Level Forum is an end-point for one set of international targets, the Paris indicators, but the meetings will also take place as the international community enters the homestretch for the Millennium Development Goals (MDGs). Progress toward the MDG targets is off-track in many countries, especially in sub-Saharan Africa, despite significant advances in many areas. The conference in Busan must look back and reflect on successes and challenges as well as look forward to develop a new consensus frame for a global development partnership.

- Fourth, some of the major challenges facing developing countries—fragility and security, capacity development, and mitigating and adapting to climate change—are in areas where the aid track record is not good, making the results chain more problematic to define and weakening confidence in aid as part of the solution.

- Fifth, aid is increasingly understood as one of a number of policy instruments that must work together coherently to effectively support development. Aid effectiveness must be addressed in light of this more comprehensive frame of development effectiveness.
- Sixth, the combination of reductions in global poverty that have taken place in recent years, significant problems elsewhere in the global economy and historic shifts in foreign policy agendas has decreased the international urgency and commitment to tackle problems of international development. Instead, in many countries and forums, international development has fallen even further down the list of priorities for policymakers.

Taken together, these issues suggest two overriding goals for the international community to focus on at Busan:

1. Generating political will to elevate and maintain development as an international priority, in the face of a range of competing international and domestic agendas;
2. Modernizing the aid delivery model to scale up the development impact of aid interventions.

The two issues clearly interact. Political will without a better aid delivery model will result in a communiqué that risks being quickly undermined and forgotten. A better aid delivery model without broader political will risks the loss of important financial and technical support to increase impact on the scale required to make a material difference.

## Key Goals

### Political Will

The issue of political will relates to development efforts and the Busan forum in two different ways: (1) the will to prioritize development on the international agenda and the agendas of wealthier countries and (2) the will to apply a development lens to the full array of relevant international policy instruments, beyond just aid.

Development is not at the top of the international agenda. At the G-20 meetings, development issues are often treated in a perfunctory fashion, with little time for discussion after the larger issues of global imbalances, financial regulation and other topics have been thoroughly debated by leaders. Development is the poor stepchild of high profile foreign policy and security agendas and the instruments for development cooperation, such as aid, are frequently deployed to further these other agendas. The Seoul G-20 Summit tried to rectify this by endorsing a Seoul Development Consensus with nine pillars, but it is too early to see what actual progress might be made. One indication that development is not taken as seriously as other global issues is to see how development work is being organized institutionally. Of the three G-20 work streams—finance, agriculture and development—the first two have regular ministerial meetings prior to the summits, while development meetings are attended by the G-20 sherpas without a minister-level structure to support their efforts.

A key success factor for the Busan meeting would be to give sustained prominence to the development agenda, even in the context of the difficult current global environment. This requires teeing up a deeper level of engagement and change beyond high-profile commitments declared at summits. If development is to be taken seriously, it cannot just rely on high-level meetings at three-year intervals. That probably means linking the outcome document from the Busan meeting and the whole aid effectiveness agenda more closely with other global institutional processes like the G-20 Multi-Year Action Plan for Development, which will annually report on development progress to G-20 leaders, and the United Nations development cooperation forum. A key advantage of these processes is that China plays an active role in the discussions, whereas it is not a member of the OECD/DAC Working Party on Aid Effectiveness. Given China's size and growing importance for global development cooperation, it is crucial that the Busan meeting incorporates a way to engage China in a global development compact.

Elevating and maintaining development as a national priority among major donors also means that they must better articulate how their own national interests depend on the achievement of development outcomes in key partner countries. This suggests institutional elevation of development policy and a more country- or regionally-focused approach to development, with like-minded development partners cooperating in a structured, mutually accountable way. But this latter approach raises the risk of creating more "donor orphans," or countries that are not strategically important and thus do not receive as much aid as their needs and absorptive capacity warrants. However, truly global development means that international cooperation mechanisms must be developed to ensure that such countries and the poor people in those countries are not left behind. Asking multilateral agencies to help fill the gap is one way to address this problem.

Second, although the Busan meeting is a forum on aid effectiveness, the ultimate aim is effective development. The set of governments and multilateral institutions that will gather in Busan to discuss improving their aid to poor countries also have other policy instruments at their disposal that can either support development or undermine it, depending on how they are employed. Trade, agriculture, investment, energy, military security and migration all matter as much, or more, to development as aid. The decisions made on these issues are often separated by institutional barriers from decisions on aid. In Accra, few countries were represented by heads of delegation who could speak credibly to these other issues or could commit to bring a development lens to the broader range of bilateral policies.

From import duties to domestic farm subsidies, a range of policies in rich countries can be counterproductive for international development efforts. Domestic politics obviously plays an overwhelming role in the direction of such policies, but without at least subjecting these policy decisions to an assessment of their impact on development investments, rich countries are ignoring the analysis required to make more informed decisions. Major donor countries should be able to identify and hopefully avoid situations where aid to increase the industrial productivity and exports of a developing country is undermined by tariffs or quotas levied against that same country. A more coherent approach could lead to meaningful reductions in barriers to free trade for the poorest countries; however, duty-free, quota-free market access even for the least developed countries remains an elusive goal.

Incoherent policies are not just characterized by counterproductive efforts but also by missed opportunities for synergy. For example, policies encouraging development-friendly private sector investment via risk guarantees could be more closely aligned with aid strategies. Policy coherence for global development requires political will to ensure a high degree of coordination. And where compelling trade-offs arise, such political will can be useful in sometimes tipping the balance toward effective and efficient global development support.

## A Better Aid Delivery Model

Although there have been considerable successes with improving aid delivery thanks to implementation of the Paris and Accra agendas, many people still do not think that aid works. Problems of fragmentation, volatility, overlap and waste seem to be becoming worse. The Busan meeting must address the challenge of creating a better aid delivery model. It can do this in two ways: (1) presenting ideas for better aid cooperation and coordination and (2) charting a way forward that clearly learns and adopts the lessons of success and failure in approaches.

There is no doubt that in many countries there has been significant progress in both development outcomes and aid effectiveness. Across many aid donors' programs, it is true that assistance is far better aligned to the MDGs than before; most aid is now untied, operations have been decentralized to the field, country systems and budgets, where appropriate, are being used more, and donor coordination is better than it was before. These successes must be acknowledged and clearly communicated. But at the same time, the challenges of aid coordination seem to have become more difficult in several respects: there are more and more donor agencies; the number of aid activities has proliferated; the number of missions is growing; mandates for aid have expanded; and financial volatility of aid is on the rise.

The overlap, waste, slowness and bureaucratic paperwork associated with official aid across many donors are now broadly acknowledged. The OECD/DAC has developed a new aid statistic—country programmable aid—that focuses on aid flows that actually reach developing countries, as opposed to those that do not constitute cross-border flows (like the administrative costs of aid agencies) or that are not part of program funding (like emergency humanitarian assistance). About one-third of all aid falls outside country programmable aid. Even country programmable aid resources do not all reach intended beneficiaries. Several studies suggest that approximately half of all official development aid from around the world is lost to inefficiency or failed projects. This is the heart of the problem that the Paris and Accra processes were designed to tackle.

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There are many ideas to facilitate better aid. For example, modalities of aid delivery can be improved through transparency, scaling up proven approaches, capacity development and South-South cooperation. Aid can be fine-tuned to specific country circumstances, most importantly to fragile state contexts. And the newly prominent development partners --including non-DAC official donors, international NGOs and the private business community—will need to join forces with traditional donors and each other.

All these are important, but two issues stand out: leveraging multilateral cooperation and donor harmonization in an inclusive development partnership; and dealing with fragile states.

First, compounding the fragmentation of aid programs, the official development system has experienced a swing toward bilateralism. From 1998 to 2008, only Japan and France among DAC countries significantly increased the share of their aid channeled through multilateral agencies. In the United States and Australia, the share was cut by more than one-half.

If contributions by European countries to European Union aid institutions are excluded, on the grounds that the EU does not try to maintain the same kind of political neutrality as other multilateral agencies but behaves in many ways like a country, the decline in multilateralism is all the more marked.

Multilateral agencies are best placed to lead efforts at donor harmonization and alignment with recipient country priorities and systems. Comparative studies of aid effectiveness find that multilateral institutions, on average, perform better than bilateral agencies.[1] The new vertical funds (the Global Fund, GAVI, etc.) are specialized and have been able to mobilize resources to achieve significant development results in their area of focus.

As promoted in the Paris and Accra agendas, the channeling of aid through multilateral programs and the harmonization of bilateral donor programs—along with alignment and country ownership—reduce donors' autonomy in managing their aid. However, there has been little willingness by donors to surrender greater autonomy and they still directly control aid through separate project implementation units, studies and missions, rather than relying on others who might be engaged in similar activities and without considering the impact of those arrangements on the scarce administrative resources of the recipient country.

It would take strong political resolve for the Busan meeting to recapture the spirit of multilateralism and international coordination in development cooperation. It might mean foregoing the temptation to "plant the flag" or take credit for specific development achievements and instead being content to share the credit and burden with others in order to be more constructive. A system that continues to fragment and fails to take advantage of multilateral comparative advantage in scale economies, political neutrality, and global development knowledge cannot be efficient.

A second priority for a better aid delivery model is to tailor interventions in fragile states to the complex circumstances of each context. Much has been learned about what works and what does not in fragile states. In fact, a group of fragile states, the g7+ group, has issued a set of principles under the auspices of the "International Dialogue on Peacebuilding and Statebuilding." The 2011 *World Development Report* has a useful framework around security, justice and jobs. It emphasizes statebuilding, humanitarian assistance and long-term development as

three interconnected processes that need to be pursued in parallel rather than in sequence. This has implications for aid effectiveness. It is now widely believed that the Paris and Accra agendas cannot be implemented easily and effectively in fragile environments, but that a modified approach is needed with different metrics, time scales and sequencing of interventions. Flexibility and learning about what works in the specific context of each country is critical. Assistance to fragile states also demands coherence in a range of policies beyond aid. Closer coordination is needed between the military, humanitarian, governance and economic development communities in promoting development. The Paris and Accra processes, with their focus narrowly on aid coordination, do not facilitate this.

It is important to develop a new framework on effective interventions in fragile states because the volume of aid to fragile states is now almost as large as the volume of aid going to stable countries. More importantly, poor people living in fragile states account for a growing share of global poverty; they accounted for about 30 percent in 2005, perhaps over 40 percent today and maybe as much as 55 percent by 2015. This shift in focus is because of the success in reducing poverty in stable countries (mostly in Asia), coupled with slow growth and increased household vulnerability in fragile states.

## A Busan Global Development Compact

Since a tangible vehicle is required to enlist commitments to more effective aid and development policies, the fourth High Level Forum should culminate with a new "Busan Global Development Compact" that has strong political backing and that is institutionalized through links with other processes like the G-20 Development Multi-Year Action Plan. Around 2,000 development stakeholders—official and private, DAC members and non-DAC members, donors and recipients—will participate at Busan, which will allow the discussions to be inclusive of many perspectives. The Busan meeting should pave the way for a broad, inclusive development partnership in which a more effective division of labor is established, along with efforts to reduce overlap and waste on the one hand and share successful experiences on the other hand. Such a partnership will almost inevitably have to recognize differentiated responsibilities of partners and identify their complementary strengths. The current partnership model, as represented by the Paris Declaration, is seen as a one-size-fits-all approach. It is not honored in the breach by important signatories. It also has no resonance with many of the non-DAC official development assistance providers or with the private sector. What is more, the Paris indicators are exclusively focused on aid targets. They do not have the nuance to reflect other development instruments or conditions that might be specific to some sectors, such as infrastructure or agriculture, for which a different organizational framework might be appropriate.

The vision for the Busan Global Development Compact is two-fold. It must signal a renewed political resolve that major countries will take development seriously and position aid as one of several instruments for development effectiveness. It must forge a better aid delivery model at the country level.

Delivering aid better at the country level requires improved mechanisms for coordinating official and private, DAC and non-DAC development partners. The best approach is to use established budget processes and country systems more effectively, with the understanding that these processes need substantial strengthening in some

cases. Transparency is one "low hanging fruit" that has the potential to dramatically improve development outcomes. Budget transparency, that includes information on domestic resources in developing countries and non-concessional external flows, would in turn require aid transparency. A Busan compact could encourage both aid recipients and donors to commit to far greater transparency.

The Busan compact would also need to spell out operational modalities of a number of alternative partnerships, such as South-South cooperation and triangular cooperation. That needs practical approaches to the technical matching between supply and demand for good practice development knowledge, which is a considerable task when information asymmetries are so large. It also needs innovative financial instruments to share the cost burden. Most importantly, the Busan meeting will be a success if it finds common ground with China and other non-DAC donors; at a minimum, they should find common ground on the sharing of basic information and basic practices of development. Even if donor countries do not cooperate with each other, it would be helpful if they operated in a way that minimizes the spill-over effects they may have on others. For example, non-concessional loans made by one donor affects the creditworthiness of the recipient country and may crowd-out non-concessional loans from other donors. Large new investment programs may squeeze availability of operation and maintenance funds for using existing assets effectively. And environmental and social standards must be symmetrically applied to generate fairness and even treatment for all communities within a developing country.

The Busan Global Development Compact would recognize the differences in country circumstances, the diversity of donors and the dynamics of development. It would not be a one-size-fits-all approach, but would customize aid interventions to country needs. To do this, the compact should redefine monitoring indicators and success factors. The Paris process has shown the value of having time-bound indicators along with a monitoring mechanism to hold donors to account. It has also shown how important it is to have a thoroughly considered process for deciding on which indicators to include. The Busan compact, however, must go beyond the current Paris indicators. It should articulate a new set of inclusive global development partnerships that give voice, purpose and guidance to non-DAC official and private development partners. It is probably already too late for agreement to be reached in Busan on a new set of indicators. But there is still time for participants and planners to lay the groundwork for appropriate monitoring indicators by agreeing on the process and principles. For example, it is important for any monitoring to reflect the voice of partner countries more strongly. Fragile states have already organized themselves in the g7+ group and issued a Dili Declaration to provide a new vision on peacebuilding and statebuilding.[2] Monitoring should cover not just DAC donors but perhaps all donors, implying that the OECD may not be the automatic choice for undertaking the monitoring.

One advantage of the Busan meeting over previous high level forums is that it will have data from three surveys on aid effectiveness designed to monitor progress on the targets agreed to at Paris. The evidence provided by

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that stock-taking, along with other systematic evaluations of aid, provides an empirical base for an improved aid delivery model. Honesty and humility in documenting what aid has and has not achieved and supporting more learning at the country level would allow the Busan Global Development Compact to evolve over time.

## An Important Role for the United States

For the Busan meeting to be a success, the U.S. government should position itself to play a critical and catalytic role, in part by announcing that Secretary of State Hillary Clinton will attend. As the world's largest donor, the U.S. is well-placed to play a constructive role. This is particularly true given the thoughtful policy reviews that took place over the past two years of the Obama administration. These resulted in a development policy that seeks to implement reforms that would enable more deliberate, effective, efficient and sustainable development support.

As the head of the organization currently being rebuilt to be the U.S. government's lead development agency, USAID Administrator Rajiv Shah should obviously direct official American efforts regarding the high level forum. However, Secretary of State Hillary Clinton should join him in Busan and head the U.S. delegation for at least part of the three-day forum. Her decision to attend would align well with her new plan, put forward in the Quadrennial Diplomacy and Development Review (QDDR), to apply diplomatic heft toward global development goals. A key aspect of the QDDR is a focus on building "development diplomacy" as a discipline better supported by the U.S. State Department, which "has not always been a willing and capable partner for USAID in supporting the development pillar of our foreign policy."[3] Putting forward such a strong team to engage the international community at the Busan meeting would serve as an important proof of concept for a State Department that is now meant to embrace USAID's expertise and leadership while actively seeking to complement it.

Secretary Clinton even made reference to the upcoming high level forum on aid effectiveness when she unveiled the QDDR at town hall meetings at the State Department and USAID. In remarks to USAID employees she noted:

> "This questioning about how best to do development is not just happening here in Washington. It's happening everywhere. There will be a very important summit about development at the end of 2011 in [Busan,] Korea. The OECD is doing a lot more evidence-based kind of assessments of development. I want us to be at the forefront of that. I want people to be saying, 'Boy, the Americans really have it right. They understand we have to do more on country-led efforts. They understand they've got to do a better job coordinating their own government. They understand that evidence should drive programs.'"[4]

Short of transforming the Busan meeting into a presidential summit attended by President Barack Obama, what better way is there for Secretary Clinton to ensure that the U.S. is at the forefront of global development than by showing up?

As a messenger representing all of U.S. foreign policy, the value of Secretary Clinton's attendance would be significant. The unprecedented attendance at such a forum by the U.S. secretary of state would provide a striking indication of an elevated priority on global development. It would demonstrate greater political resolve on the part of the U.S. to view development as a key pillar of U.S. foreign policy that extends well beyond charity and as an integral—rather than ancillary—part of a larger, interconnected system of international relations in the 21st century world. This stance could, in turn, serve as an attractive model for other countries. Secretary Clinton's attendance would encourage her foreign counterparts to attend as well. And if she announces such plans well in advance, the discussion at Busan will be far more likely to carry a strong political message and focus on aid as part of a broader perspective on development effectiveness. Although it is important that development cooperation ministers and heads of aid agencies attend the Busan meeting, it is also important to ensure adequate representation at the political level so that commitments have more meaning. Participation by Secretary Clinton and other powerful leaders from around the world would also draw greater media and public attention globally.

Secretary Clinton can up the ante at a time when the U.S. has a good hand in terms of its policy focus on foreign aid reform and development effectiveness. Considering the particularly difficult budget politics in Washington going on right now, the U.S. is not in a good position to push for larger aid volumes globally; nor are many large donors of development assistance. The U.S. is, however, well prepared to push for effectiveness and the Busan meeting can serve as an opportunity to showcase the beginnings of a new American approach as envisioned in Obama's policy on global development. This approach emphasizes a more coherent development policy and a better aid delivery model and so it is resonant with the very goals that should be the focus of the Busan meeting.

In line with his administration's national security strategy which emphasizes development, President Obama issued a policy directive in September 2010 that calls for: greater focus on sustainable development outcomes; a modern organizational structure that elevates development within foreign policy deliberations and ensures greater development policy coherence across the range of U.S. government capabilities and instruments; and a new operational model that leverages U.S. leadership and makes it a more effective partner in support of development.[5] These are exactly the issues that should be discussed in Busan.

The president's directive lays out the goals for U.S. development policy and internal reforms while directly recognizing that "development is vital to U.S. national security and is a strategic, economic and moral imperative for the United States." While the previous Bush administration also elevated development rhetorically in its national security strategies, the current administration has taken more strategic steps in planning for coherent development support. At the operational level, significant reforms are also taking root within USAID to improve aid delivery, including the modernization of procurement processes, and tangible steps to bolster policy planning, evaluation, strategic focus, innovation, transparency and talent within the agency. The U.S. government's revitalized and more unified approach is being piloted in countries that show promise for sustainable, broad-based economic growth. But given the size of U.S. commitments in Afghanistan, Pakistan and Iraq, as well as the scope of the current upheaval across the Middle East and the Maghreb, the administration is also acutely aware of the need to improve stabilization and assistance efforts in fragile states. As noted above, assistance to fragile

states requires an especially high degree of coherence and sensitivity and the Busan meeting presents the U.S. with an opportunity to profoundly influence a timely international discussion on the subject.

The leadership opportunities and responsibilities for the U.S. in relation to development effectiveness will extend beyond the Busan meeting as well. The momentum of U.S. leadership in helping to forge a Busan Global Development Compact must then be carried through to other global mechanisms for progress. Importantly, the U.S. must resist the temptation to use its chairmanship of the G8 in 2012 as the primary vehicle to capitalize on any gains made at Busan. While the G8 may continue to serve as a forum to promote better and more responsible development aid among a rather limited group, the G-20 is the more appropriate forum in which to exert leadership on development effectiveness and has already adopted the Seoul Development Consensus.[6] China and other large emerging actors involved in development cooperation play a vital role in the G-20 and have endorsed the development consensus. Therefore, it is particularly important that the U.S. constructively engage with these actors rather than clinging too tightly to an artifact of the 20th century like the G8. Direct engagement between the U.S. and China on development cooperation through the existing U.S.-China strategic and economic dialogue already demonstrates a positive approach. This could also serve as a useful platform for further engagement if the Busan meeting results in an inclusive global development compact.

Three signature developments in late 2010 provide the backdrop to the Busan meeting: the United Nations' Millennium Development Summit, the G-20's Seoul Development Consensus, and the unveiling of the new U.S. global development policy through the presidential directive on global development and the accompanying QDDR. The U.S. demonstrated leadership in all three cases. The United States should be prepared to do the same at Busan later this year.

## Endnotes


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