

## Chapter 3

# **Aid Effectiveness: Three Good Reasons Why the Paris Declaration Will Make a Difference**

*On 2 March 2005 over one hundred donors and developing countries agreed in Paris to undertake some landmark reforms in the way they do business together. These reforms, enshrined in the Paris Declaration on Aid Effectiveness, are critical if aid commitments made during 2005 are to help partner countries meet the Millennium Development Goals by 2015. Some would argue that the Paris Declaration is nothing but good intentions and unlikely to make a difference. This chapter argues there are at least three good reasons to be confident that the Paris Declaration significantly increases the impact of aid.*

**A**id is in the spotlight as never before. Following the recent commitments made at the G8 summit at Gleneagles, the UN Millennium Summits and the EU, the amount of aid provided to LDCs is expected to increase by nearly 60% (about an additional USD 50 billion) by 2010. Yet aid increases will not help reduce poverty in the absence of major improvements in the quality of aid. This requires ambitious reforms in the aid system. Not only from donors, who could do a much better job at delivering aid more effectively, but also from developing countries who could improve the way they manage it. For many years reforms in these areas have been slow to materialise and, all too often, it has been business as usual within the development community.

Today, however, there are some good reasons to believe that the “times they are a changing”. On 2 March 2005, for example, over one hundred donors and developing countries agreed in Paris to undertake some landmark reforms in the way they do business together. The Paris Declaration marks an unprecedented level of consensus and resolve to reform aid to make it more effective at combating global poverty. Pessimists, who see the Declaration as just another solemn statement of good intentions, are entitled to be sceptical and will no doubt wonder whether this will really make any difference at the end of the day. This chapter argues that there are at least three good reasons to be confident that it will.

### Reason 1: The Paris Declaration goes beyond previous agreements

The Paris Declaration has moved the aid effectiveness agenda beyond the general consensus reached in previous agreements of this kind including the High-Level Forum in Rome in 2003.

**A very high level of participation.** The High-Level Forum on Aid Effectiveness brought together a much larger and more representative group than previous agreements with more ministerial-level representation by both donors and recipients of aid. It was attended by development officials and ministers from 91 countries, 26 donor organisations and partner countries, and civil society and private sector representatives.<sup>1</sup>

**Actions not words.** More so than previous agreements, the Paris Declaration goes beyond a statement of general principles and lays down a practical, action-oriented roadmap to improve the quality of aid and its impact on development. The 56 partnership commitments included in the Paris Declaration are organised around five key principles:

- **Ownership** – Developing countries will exercise effective leadership over their development policies, strategies and co-ordinate development efforts. Donors’ are responsible for supporting and enabling developing countries ownership by respecting their policies and helping strengthen their capacity to implement them (paragraphs 14 and 15 of the Paris Declaration).
- **Alignment** – Donors will base their overall support on partner countries’ national development strategies, institutions and procedures. For example, this means that donors will draw conditions, wherever possible, from a developing country government’s

### Box 3.1. High-level representation at the Paris High-Level Forum

The Paris Forum on Aid Effectiveness – in which the Paris Declaration was agreed – was hosted by the French government and was co-sponsored by eight organisations who were represented at the highest level:

- OECD – Secretary-General Donald Johnston and Chair of the Development Assistance Committee, Mr. Richard Manning.
- World Bank – President James Wolfensohn.
- United Nations Development Programme – Administrator Mark Malloch Brown.
- Asian Development Bank – President Haruhiko Kuroda.
- African Development Bank – President Omar Kabbaj.
- European Bank for Reconstruction and Development – President Jean Lemierre.
- Inter-American Development Bank – Chief Development Effectiveness Officer, Mr. Manuel Rapoport.

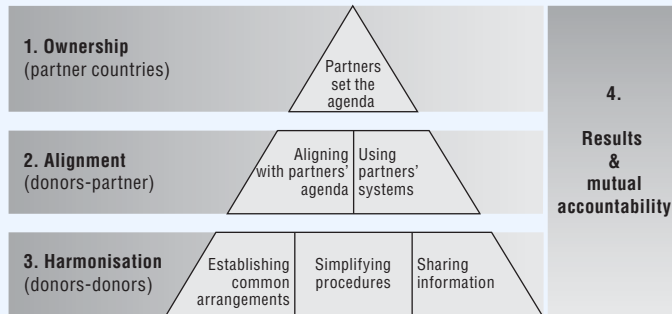
The meeting was also attended by President Enrique Bolaños (Nicaragua), Commissioner Louis Michel (EC), more than 60 ministers and many other heads of agencies and high level officials.

development strategy, instead of imposing multiple conditions based on other agendas (para. 16).

- **Harmonisation** – Donors aim to be more harmonised, collectively effective and less burdensome especially on those countries, such as fragile states, that have weak administrative capacities. This means, for instance, establishing common arrangements at country level for planning, funding and implementing development programmes (para. 32).
- **Managing for results** – Both donors and partner countries will manage resources and improve decision-making for results. Donors should fully support developing countries efforts in implementing performance assessment frameworks that measure progress against key elements of national development strategies (para. 43-46).
- **Mutual accountability** – Donors and developing countries pledge that they will hold each mutually accountable for development results as outlined in the aid effectiveness pyramid below.

**The Paris Declaration has been prepared with broad consultation.** As part of the preparation for the Paris Forum, regional workshops were held in October and November 2004 in Asia (Bangkok, Thailand), Latin America (Tegucigalpa, Honduras), Central Asia (Bishkek, Kyrgyz Republic), and Africa (Dar-es-Salaam, Tanzania), and in February 2005 in the Middle East (Jeddah, Saudi Arabia). These regional workshops brought together representatives of the development community from partner countries, donors, and civil society, to exchange experiences and take stock of overall progress and areas needing further work. In February 2005, the sponsors of the Paris High-Level Forum organised a dialogue with NGOs on aid effectiveness. This dialogue brought together over 50 NGOs from around the world and representatives from donor organisations and was designed to provide a vital opportunity for NGO input into the High-Level Forum. Both the regional workshops and the dialogue with NGOs fed into the preliminary drafts of the Paris Declaration.

Box 3.2. The aid effectiveness pyramid



## Reason 2: Twelve indicators to monitor progress in achieving results

For the first time donors and developing countries have committed to measuring their success – or failure – at making aid more effective with a set of indicators and targets for the year 2010.

**Progress at country level will be monitored against 12 indicators of aid effectiveness.** Participants at the Paris High-Level Forum agreed that progress would be measured against 12 indicators as a way of tracking and encouraging progress against the broader set of partnership commitments included in the Paris Declaration. The Working Party of the OECD DAC<sup>2</sup> has been tasked to co-ordinate the international monitoring of the indicators and a survey will be undertaken in the course of 2006 in order to establish baselines for the 12 indicators. This will be followed in 2008 by a second round of monitoring to review progress ahead of the next High-Level Forum on Aid Effectiveness scheduled in 2008 in Accra (Ghana).

### Box 3.3. What the Paris Declaration might achieve

If the targets agreed in Paris are met, then by 2010:

- Three-quarters of all developing countries will have established strong operational development strategies (**Indicator 1**).
- Half of developing countries' procurement and public financial management systems will have considerably improved (**Indicator 2**).
- At least 85% of aid flows will be reported on developing countries national budgets (**Indicator 3**).
- Two-thirds of donors' country analytic work will be undertaken jointly and planning of interventions will become much more consistent with a genuine "joint enterprise" (**Indicator 10**).

For the full list of indicators and targets please refer to Section III of the Paris Declaration.

**Targets for the year 2010 have been set for eleven<sup>3</sup> of these indicators.** These targets, which commit both donors and partner countries, are designed to encourage progress at the global level among the countries and agencies that have agreed to the Paris Declaration. They are not intended to prejudge or substitute targets which individual donors or countries may wish to set, but rather provide a flexible benchmark against which countries and organisations can measure their performance. Progress towards these targets will also be reviewed in 2008.

### Reason 3: The Paris Declaration creates stronger mechanisms for accountability

One reason why reform in the aid system has been slow to materialise is the weakness of accountability mechanisms within this system. All too often, neither donors nor developing country governments are truly accountable to the citizens of the North and South on the use of development resources. Significant progress towards making aid more effective therefore requires stronger mechanisms for accountability for both donors and partner countries. The Paris Declaration seeks to address this “accountability gap” by promoting a model of partnership that improves transparency and accountability on the use of development resources.

**From donorship to ownership.** Aid is more effective when partner countries exercise strong and effective leadership over their development policies and strategies. Ownership is therefore the fundamental tenet underpinning the Paris Declaration. Governments of developing countries are accountable to their own parliaments and citizens, not to donor organisations, for their development policies. In many countries, this means strengthening parliamentary oversight of development policies and budgets and reinforcing the role of civil society (para. 48). It also requires donors to scale down their sometimes excessive demands for accountability from developing countries by:

- Relying as much as possible on country systems and procedures (para. 21).
- Avoiding intrusive conditionality (para. 16).
- Decreasing the number of project implementation units (PIUs) that undermine national administrations (para. 21).
- Providing timely and transparent information on aid flows so as to enable partner authorities to present comprehensive budget reports to their legislature and citizens (para. 49).

**Stronger and more balanced mechanisms for mutual accountability.** At present accountability requirements are often harder on developing countries than donors. The Paris Declaration recognises that for aid to become truly effective, stronger and more balanced, accountability mechanisms are required at different levels. At the international level, the Paris Declaration constitutes a mechanism in which donors and recipients of aid are held mutually accountable to each other and compliance in meeting the commitments will be publicly monitored. To this end, the Working Party on Aid Effectiveness has been charged (para. 9) with the responsibility of establishing a medium-term monitoring plan not only for indicators (see above) but also for commitments. At the country level, the Paris Declaration encourages donors and partners to jointly assess mutual progress in implementing agreed commitments on aid effectiveness (para. 50) by making best use of local mechanisms such as consultative groups.

## Conclusion: The Paris Declaration is all about changing behaviour

Increased aid flows are unlikely to make a serious dent into global poverty if donors do not change the way they go about providing aid and developing countries do not enhance the way they currently manage it. Business as usual will not only erode the credibility of development assistance in the North and South, but more importantly, will undermine the international community's ability to reach the MDGs by 2015. Disappointing results could make *aid*, not *poverty*, history.<sup>4</sup>

This is why the challenge of the Paris Declaration is to reform the way donors and partner countries work together to meet common objectives and make best use of limited development resources. Put simply, the Paris Declaration is about changing behaviour. Taken together, the agenda set out by the Paris Declaration and the strengthened mechanisms for mutual accountability create some very powerful incentives to change patterns of behaviour. For it to yield results, however, it will have to be matched by serious and sustained political resolve at the highest level.

At the end of the day will this all really make a difference? The answer will be provided at the next High-Level Forum on Aid Effectiveness in 2008 in Ghana when donors and partner countries will get together to review progress in implementing the Paris Declaration.

### Notes

1. A full list of representatives at the Paris High-Level Forum is presented in Appendix B of the Paris Declaration in the annex of this chapter.
2. The OECD-DAC Working Party on Aid Effectiveness is a partnership of donors and developing countries and is hosted by the OECD Development Assistance Committee (DAC).
3. A qualitative target has been set for Indicator 8 on untying aid.
4. Institute of Development Studies (IDS) (2005), *IDS Policy Briefing*, Issue 25, IDS, Brighton, UK.