

## MAKING DEVELOPMENT CO-OPERATION MORE EFFECTIVE

**I**ncreasing aid effectiveness was at the centre of the OECD Development Assistance Committee's (DAC) annual meeting of development ministers and heads of development agencies (15-16 April 2004).

As a follow-up to the Monterrey Conference on Financing for Development in 2002, the donor community has committed to provide an additional USD 19 billion in development assistance over the next few years. If these commitments are fully met, this means that by 2006 total DAC official development assistance (ODA) is expected to reach some USD 75 billion at 2002 prices and exchange rates. Estimates of additional aid requirements to meet the Millennium Development Goals (MDGs) would call for even more rapid increases in ODA. As the Monterrey Consensus recognised, however, increased aid volume will not be enough. Aid must also become more effective, to contribute to meeting the MDGs and to poverty reduction, as well as to generate increased public support for aid in OECD countries.

### *Increasing aid effectiveness*

Increasing aid effectiveness is not a simple process, nor is it entirely in the hands of donors. Evaluation results show clearly that the most important determinant of aid effectiveness is the partner country's own policies and capacities. Having said that, harmonising development assistance is a crucial part of delivering aid more effectively. It is all about rationalising our collective management of aid in support of partner countries' own poverty reduction strategies. Admittedly, this is not a new concern. Harmonisation of donor practices has been on the international agenda for many years now, but until recently with little effect. All too often it is business as usual – donors, by confronting poor countries with multiple and uncoordinated administrative procedures, reduce their capacity to manage their own development processes. By the same token, the value of development assistance is also reduced.

### *The importance of harmonisation*

Is this about to change? There is promising evidence that donors are tackling this problem more seriously. In the wake of the Monterrey Consensus, for example, the European Council in Barcelona (March 2002) adopted eight commitments to improve harmonisation and aid delivery. More recently, Poul Nielson, the EC Commissioner for development co-operation, has suggested elaborating a directive in support of better harmonisation. In February 2003, the DAC co-sponsored a High-Level Forum on Harmonisation in Rome which marked a new level of

consensus and commitment on how aid could be implemented more effectively. This strategy, set out in the Rome Declaration, rests on three mutually supporting pillars:

- *Ownership* – Partner countries co-ordinate development assistance.
- *Alignment* – Donors should provide development assistance in accordance with partner country priorities and systems. In that spirit, partner country ownership is key, and partner countries should take the lead in co-ordinating development assistance.
- *Streamlining* – Donors should act together to harmonise their administrative procedures, and, for example, reduce the number of separate projects and of separate missions.

Recognising the importance of sustaining strong political pressure for change, donors also agreed in Rome to hold a second high-level forum on harmonisation. The French government has agreed to host this event in early 2005 with a view to assessing and encouraging progress in implementing the Monterrey Consensus and the Rome Declaration.

In preparation for this event the DAC, in close collaboration with the World Bank, is monitoring progress in implementing the Rome agreement. Preliminary findings suggest, however, that the harmonisation agenda has not yet been sufficiently internalised in development agencies' operational policies at country level.

While it would be unreasonable to expect too much progress over such a short period of time, donors should acknowledge the magnitude of the challenges ahead of them and scale up their actions accordingly, especially at country level. This might signify, for example, that senior managers of development agencies communicate to their staff the relevance of the harmonisation agenda in meeting the MDGs. There is also a more general need, in support of donors' credibility, to demonstrate progress that principles are gradually being turned into practice.

### **Financing for development**

The most important source of financing over time for reaching the MDGs will be domestic savings. But most less advanced countries, by definition, are unable to mobilise savings anywhere near the levels needed. They will require substantial extra external financing. Even when the Monterrey commitments of extra ODA are taken into account, reaching the MDGs will require a further USD 25 billion per year to 2015. It now behoves the international community to consider whether forms of development financing other than traditional ODA might be able to contribute substantially and in time to reach this target. The most important options, highlighted in a recent OECD Development Centre Policy Brief, include: *global taxes* on, for example, currency transactions, energy use or arms sales; *voluntary private-sector* contributions through donations, global lotteries and premium bonds, or global funds; and *financial engineering*, including the International Finance Facility (IFF), a focused use of special drawing rights (SDRs) and/or public guarantees.

Each of these options has economic and political drawbacks and advantages, and it remains the case that the most straightforward way to avoid underfunding the MDGs would be to increase ODA further. With renewed political will, however, enhanced support from public opinion and changes in the domestic attitudes in some OECD countries, a combination of some of these options might succeed in providing the required financing in the time available. The Policy Brief argues that, while it is unlikely that global taxes could be introduced in time, the IFF, in combination with strengthened use of public guarantees and global premium bonds, may stand a better chance of providing the additional funds required.

## **SECURITY SYSTEM REFORM AND GOVERNANCE: POLICY AND GOOD PRACTICE**

OECD members recognise that development and security are inextricably linked. This perception is opening the way to treating security in partner countries as a public policy and governance issue, inviting greater public scrutiny of security policy. OECD governments seek to help partner countries establish structures and mechanisms to manage change and political conflict through democratic and peaceful means. A high-level meeting of the OECD's Development Assistance Committee (DAC) in April 2004 endorsed a paper entitled "Security System Reform (SSR) and Governance: Policy and Good Practice" which offers principles and concrete examples to help guide donors who engage in SSR.

### **Security and poverty reduction**

The "Policy and Good Practice" paper highlights the changes that are taking place in the way that donors think about security. It emphasises that security involves not only state stability and regime security, but also securing the safety and well-being of populations. Security in all its dimensions is fundamental to reducing poverty, protecting human rights and achieving the Millennium Development Goals (MDGs).

SSR seeks to increase the ability of partner countries to meet the range of security needs within their societies in a manner consistent with democratic norms and sound principles of governance, transparency and the rule of law. It includes, but extends well beyond, the narrower focus of more traditional security assistance on defence, intelligence and policing. The security system includes the armed forces, the police and gendarmerie, intelligence services and similar bodies, judicial and penal institutions, as well as the elected and duly appointed civil authorities responsible for control and oversight (e.g. parliament, the executive and the defence ministry).

### **Improving policy coherence**

Development agencies will seek to improve policy coherence on SSR through whole-of-government approaches. Formulating government-wide SSR strategies will require collaboration between defence, foreign affairs, development and other ministries. Development agencies have a key role to play in this dialogue. In partner countries engaging in SSR, they will work to promote a similar coherence of approach that takes into account the security system as a whole.

Donors are committed to facilitating reform that is partner-country owned and led, recognising that reform efforts are otherwise likely to fail. In working with partner countries, donors will also pursue greater co-ordination, harmonisation and an effective division of labour. Assistance must be context-specific as needs, priorities and resources differ substantially from country to country. Donors will encourage local demand and vision for democratic governance of the security system. The objective is to help create a pro-reform environment, such as through support for the involvement of civil society, including women's groups and the media, as well as institutional capacity for change.

Analysis and support should include a regional perspective as cross-border dynamics can have a major positive or negative impact. Aid at the national level may, therefore, need to be complemented with assistance to regional or sub-regional organisations.