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The Aid Effectiveness Agenda

The Paris Declaration

The Paris Declaration sets out ambitious objectives and commitments on Aid Effectiveness. With a current, and still growing, list of 100 donors and partner countries and 26 international institutions who have signed up to the Paris agenda, it has become a key priority in the international development effort.

The Paris Declaration goes beyond many previous initiatives in that it lays out a practical and strongly action oriented roadmap to improve the quality of aid and its impact on development. It clearly defines 56 commitments for better aid effectiveness, and 12 concrete indicators to measure progress towards these outcomes. It does not prescribe a uniform approach or way how to get there, and donors as well as partners are going to implement it in different fashions. But it is built on the five principles of 1) partner country ownership; 2) alignment with partners' development strategies; 3) donor harmonization; 4) managing for results; and 5) mutual accountability. The Paris agenda depends on all five principles working together.

What has been done since Paris, and what is coming up?

The first of three rounds on monitoring progress in delivering against the 12 Indicators of Progress of the Paris Declaration is nearing completion. Monitoring, to a common model, has been carried out in more than 30 countries, and a consolidated report will be presented to the DAC Senior Level Meeting in December.

It is yet too early to draw specific and robust conclusions from this exercise beyond establishing a good baseline. However, first indications suggest that it has contributed to building consensus at country level on a shared agenda to improve the impact of aid and increase transparency on how resources are used to achieve the development goals of partner countries.

The next formal steps, both in 2008, are the second monitoring round, and the third High Level Forum dedicated to the aid effectiveness agenda, after Rome in 2003 and Paris in 2005, which will take place in Ghana. How exactly partners and donors will take the implementation of the Paris agenda forward until then, and how it may affect the organization and management of aid programmes, is in itself subject to an evolving and interactive process of dialogue and learning conducted on the basis of the five principles.

The Paris agenda – geared more towards DAC than non-DAC donors?

Whereas many non-DAC donors have signed up to the Paris Declaration, they were less involved in its preparation. But more recent engagement in the aid effectiveness agenda and a somewhat lesser familiarity with it should not belie the fact that the agenda is ambitious for all, and will require change processes from all parties involved.

However, if some of the difficulties perceived by non-DAC donors should turn out to be less daunting than anticipated, it can be expected that some issues may pose somewhat larger challenges to them. The question is, therefore, what the implications are for newer donors.

A first such issue relates to the **choice of aid modalities** for their bilateral ODA. The assistance programmes of many non-DAC donors are still based largely on free standing projects. Partly, this is conditioned by the fact that bilateral programmes have been (re)established only quite recently, and set out with limited scope. Where the bilateral ODA budget is very small, the trade-offs donors face in balancing high fixed costs of creating and sustaining effective aid delivery mechanisms in relation to the assistance delivered will be more pronounced. Where capacity is very limited, a related challenge exists in weighing the **opportunity cost of engaging actively in local co-ordination processes** against the benefits this brings in terms of enhanced co-ordination and alignment. This question is often considered in the broader context of increasing **decentralisation of decision making to the field** by many DAC donors, on an understanding that stronger field orientation will help in implementing the aid effectiveness agenda. However, as ODA volumes of many non-DAC donors have increased substantially and continue to do so in several instances, the benefits of programme-based approaches may increasingly outweigh such disadvantages.

Programme based approaches in the form of aligned projects, delegated co-operation and budget support, are modalities that appear in principle as well-suited options for delivering more aid within a more limited scope while keeping implementation costs low. At the same time, there is no consensus on any preferable aid modalities for implementing the Paris agenda. Indeed, for most non-DAC donors (as well as several DAC donors) the use of these modalities in itself may increase existing challenges in areas such as the visibility of their aid efforts or donor control over aid implementation.

Visibility, or '**showing the flag**' is important to all donors as a sign of getting credit for their efforts, and it helps sustain public and political support at home. Yet comparatively small donors, as most non-DAC donors are, may be concerned that their share of a collective contribution will be felt to disappear or appear insignificant. It is true that tracing individual contributions may become practically impossible – however, this does not mean that showing the flag could not be done collectively. In such cases, all donors should be able to lay claim to having contributed to the entirety of development progress they collectively support – and to the effectiveness of this contribution on the basis of a clear, results-based and accountable process.

A similar logic applies to the question of **control versus relying on country systems**. One of the greatest concerns of donors vis-à-vis their public is that aid may be misspent or lost in corrupt channels, and cannot be appropriately accounted for. Beyond often valid concerns about recipient governance capacity, non-DAC donors, more than DAC members, tend to have legal or historical constraints regarding the use of partner country legal systems. At the same time, by-passing partner country systems undermines the very effort to build their capacity, creating a vicious circle that perpetuates recipients' lack of ownership and accountability. A key issue in approaching this complex issue is not to confuse control with accountability. Partner country ownership implies a progressive loosening of donor control, not of accountability. Ownership is not a blank cheque, and the Paris Declaration explicitly intended to strengthen capacity and accountability, of partners and donors, not least through **managing for, as well as monitoring of, results**.

A final area that tends to pose difficulties is the **tying status of aid**. Donors often refer to the need of ensuring domestic support through tying of aid to certain conditions. However, "tying" has been shown to increase significantly the price of aid (on average 25%), as well as administrative burdens and the risk of biasing aid towards inappropriate technology. This could also imply risk for ownership: Where supply driven and cost-ineffective elements are

introduced, the scope for effective partner country leadership may be compromised, including their ability to manage for results and assume proper responsibility and accountability for an effective development process. Finally, surveys of the public in DAC members have not corroborated a domestic preference for tied aid. When asked whether development co-operation should focus on effective poverty reduction in partner countries, or on side benefits to domestic companies, the preference has been the same in all instances: Focus on effective aid.

Issues for discussion

- The Paris agenda itself is not prescriptive. But what does it mean for the way donors, and especially emerging donors, organise and deliver their aid, and what are the main challenges ahead?
 - What are options for donors, especially non-DAC donors, to be Paris-consistent within current limitations regarding their use of aid modalities, or what change does it imply in their approaches?
 - What are challenges for non-DAC donors, in moving from free-standing projects to programme based approaches, including aligned projects, budget support and delegated co-operation, and what might be ways to move in this direction?
 - What is the best way to for non-DAC donors to sign on to the implementation plans?