



The International Aid System: What's Next?

An informal workshop co-hosted by the OECD Development Centre and the Overseas Development Institute (ODI), in collaboration with the OECD Development Assistance Committee / Development Cooperation Directorate, with financial support from DFID, the Netherlands, Sweden and the World Bank.

4 February 2005
(By invitation only)

OECD - Room 7 - 19, rue de Franqueville 75016 Paris

Background note

It is easy to think that we might have reached the 'end of history' with regard to aid, and especially research on aid. A "*consensus model*" of development cooperation appears well-established (Box 1); real progress is being made on most components; any remaining problems lie mostly in the detail of implementation; policy analysts can turn their attention to something else.

Well, not quite. New analysis shows that significant issues still surround the consensus model, for example about the relationship between high levels of aid and the possibility of good governance, or about the need for greater attention to poorly performing countries. Equally, there are other issues on the margin of current debate which require more thought: the optimal configuration of the aid architecture or the concepts and methods of partnership.

The debate is far from over and the decisions remain to be taken. Major controversies include: should budget support become the default mode for aid? Should soft loans to low-income countries be replaced by grants? Should aid allocations be selective, but unconditional for the few who qualify? Should we stop all tying of aid? Should we raise earmarked taxes for aid, or borrow from future budgets to accelerate it? Cutting across these are the issues which relate to implementation: the incentives to harmonise, the barriers to collective action.

Furthermore, the world aid system is characterised by a plethora of independent agencies with fragmented and overlapping coverage, at global and country level, reflecting an accumulation of historical precedent rather than comparative advantage.

Consensus model

- the primacy of poverty reduction, broadly defined;
- coherent policy stances, especially on trade, supportive of development goals;
- good governance principles and an emphasis on building effective institutions;
- accountability and participation
- donor alignment on country-owned strategies;
- results-based management;
- reduced conditionality; enhanced allocation;
- increased predictability of aid;
- harmonised approaches across autonomous aid agencies;
- and a sharp increase in ODA leveraged on all the above.

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The aid system is also characterised by weak and inconsistent representation by both aid users and many donors in governance and coordination fora. Last but not least, alternative strategic objectives for aid which are not inherently consistent with the MDGs, especially in the global security arena, are claiming increased political attention. How can we ensure coherence in policy design and implementation? Should we organise institutions around sectoral lines or around cross-cutting thematic priorities? How should we restructure existing institutions? Should we develop contractual support frameworks for aid delivery to improve on ownership, effectiveness and predictability?

Focus

All these are research issues, but also policy issues. Our purpose is to bring research to bear on policy. In particular, we plan to bring experts and policy-makers together, in order to (a) identify the areas of debate surrounding the present aid system and identify bottlenecks to, or gaps in effective aid delivery, and (b) evaluate options for institutional and policy reform. It is expected that the proposals will also provide guidance for a research agenda on the future of the international aid system.

The workshop will thus focus *on underlying systemic factors favouring or hindering effective aid delivery and will evaluate possible institutional and policy responses*. There will be two broad discussion blocks. The morning session will focus on performance gaps or bottlenecks of the system “on the ground”. Implications for the reform of the international aid system and policies will be drawn in the afternoon session.

Aim: streamline conclusions into the Paris 2005 High-Level Forum on Harmonisation, and open questions for future policy-relevant research.

Conclusions from the Aid System informal workshop will (i) be streamlined into the workings of the 2nd High-level Forum (HLF2), which will examine progress on aid harmonisation and alignment, and (ii) inspire future research on the international aid system.

This important work moved forward by DAC, several technical groups of donors and partner countries, is trying to make best practices systematic, develop new common standards and gather information on the achievements to date and challenges outstanding. This exercise has its own clear momentum and timeline. However, it does not always take into full account developing country perspectives or the best available research-based thinking, outside of official aid agencies. There is therefore the risk that such “conventional wisdom” ignores some key opportunities, or risks, not yet reflected in it, which could be integrated in further operational work of the HLF2 participants.

Conclusions from the workshop should thus help assist the aid community in agreeing on clear and specific commitments and timetables for further action.

Participants

About 50 to 60, split between (a) researchers and experts, mostly from Europe, including Development Centre and ODI and affiliates, (b) participants from aid recipient countries and advocacy organisations specialised in aid delivery, subject to funding availability and (c) aid agency practitioners, especially senior staff of DAC-led Working Party on Aid effectiveness. Representatives of partner governments -perhaps some of those already involved in the DAC work - and of advocacy organisations specialised in aid could also be invited.

Content

We start from the evidence *downstream*, looking into the effectiveness of the present aid architecture and the functioning of 'local' aid systems formed by donors, recipients and other stakeholders; we identify bottlenecks and major needs for reform (I). We then explore scenarios for the future and identify key factors of effective reform (II).

I. From intentions to outcomes: where are the major gaps?

Features and performance of local aid systems

The present system emphasises selectivity, targeted allocation, predictability and harmonisation for donors and ownership, good governance and accountability for recipients. However, impediments exist at several levels, such as: conflicting objectives, limited participation of relevant stakeholders, lack of capacity or ability to mobilise resources, ineffective coordination amongst agents on the ground, insufficient monitoring of outcomes and accountability, etc.

Gaps and challenges for reform

While cases exist where elements of the "model" seem to fall into place, country-based development strategies and aid coordination linked to them have overall failed to address these limitations.

- How do we assess the structure and performance of the current aid "architecture" for purposes of harmonisation and effectiveness (incl. bilateral policies towards multilateral system, performance-based selectivity versus balance in country coverage...)?
- What are the critical bottlenecks in the upstream structure, organisation and incentive systems?

II. Implications for policy and institutional reforms

Between an over-ambitious "blank sheet" approach and a too narrow "pragmatic incremental" one, we will try to find a way to rationalise and improve the overall aid system.

Vision, scenarios and issues for reform

Given the bottlenecks identified above, what would be the desirable features of an effective international aid system and feasible options to pursue? More specifically:

- What is the future of third-party "intermediaries" in the light of the accountability-gap problem, if we hope that much greater transparency and trust, and commonality of objectives, should exist between donor and recipient treasuries, parliaments and taxpayers?
- What other/new parts of the model should be put in place on the ground so as to improve development outcomes (e.g. effective dialogue with stakeholders including private sector, coherence with growth agenda, etc) or between recipient/donors (e.g. new aid instruments, medium term bulk funding, outcome-based conditionality, etc)?
- What are future options in terms of the pressing need to increase funding for development? How far can and should the "harmonisation project" go

- eventually? (e.g., would a multi-donor set-up with many features of an effective cartel, mimicking a single large donor, be in the best interests of partners?).
- Finally, what lessons can be drawn from existing international co-operation frameworks (e.g. EU Structural Funds, Cotonou, PRSPs) in terms of key factors of success in fostering development?

How do we get there? Shaping the international agenda

An agenda for change, if it is to be effective, must identify ends but also clarify means. This section will look into the political economy of reforming the aid system.

- How can internal incentives be strengthened for (a) harmonisation and alignment within donors, and between donors and recipients; (b) consolidation versus fragmentation of the aid system (e.g. creation of more special-purpose vehicles and partnerships) or (c) broader and bolder reform, of the aid system, under the constraint of multiple development and foreign policy objectives?
- Which policy tools should be used to advance reform, e.g. collective action vs. regulatory / competitive signals, including performance-based competitive funding and independent monitoring and evaluation?
- How can concepts and tools of market analysis be applied? Are there missing frameworks or institutions?