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Policy Workshop on the Challenges of Scaling Up on Country Level

Predictable Aid linked to Results

OECD, Paris, 11 December 2007

Summary record of the Policy Workshop

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Summary Record

INTRODUCTION

1. In his opening remarks, *Mr Amano, Deputy Secretary General, OECD*, noted that improving the predictability of aid is a key principle of the Paris Declaration on aid effectiveness. Most ministers of finance in partner countries have only limited information about the external resources they can expect to receive in the following two to three years, even though many donors have policies to produce multi-year financial frameworks with their key partners. The forum provided a chance to examine the number of donors that partner countries need to deal with and explore the scope for a better division of labour. As aid is scaled up, it is vital that it is focused on achieving results in countries. National development strategies can foster a dialogue between countries and their donors about the results to be achieved and the resources – domestic and external – required to achieve them.

2. As background to Session I, *Mr Hammond, Counsellor for Aid Architecture and Financing, Development Co-operation Directorate, OECD*, gave a presentation of new analyses and maps showing the degree of fragmentation of donors in many countries, and conversely of concentration in others, often fragile states [COM/DCD/DEV(2007)5]. These provided a baseline to examine donors' concentration and fragmentation and background for decisions on future aid allocations and division of labour.

SESSION I: TOWARDS BETTER DIVISION OF LABOUR: CONCENTRATION AND FRAGMENTATION

I.A - Fragmentation in well-aided countries

3. Breakout session I.A started with two presentations. *Dr. Bhattacharya, Ambassador and Permanent representative of Bangladesh to the WTO at UN Offices in Geneva*, described the changing composition of aid to Bangladesh. Bangladesh had four major donors and had explicitly expressed its disinterest in dealing with donors that gave little aid but expected a disproportionate say in donor discussions. The decision had first created a negative feeling amongst donors. Small donors had had to "reinvent themselves" through strategic leveraging in sectors, participation in SWAPs and provision of support to NGOs or private partnerships. Bangladesh put a lot of emphasis on ownership and the fact that donors needed to contribute to government-led processes. It was expecting a fall in aid flows in future years.

4. Ms. Hoven, Director General of the German Ministry of Economic Co-operation and Development, presented the guiding principles of the EU code of conduct including the lead donor arrangement, concentration on a maximum of three sectors per donor in-country (in addition to general budget support) and the general principle of partner country leadership and ownership. She stressed that division of labour could function only if it was driven by partners as they were in the best position to assess each donor's comparative advantage. Cross-country division of labour could be addressed in the medium term but required a platform for balancing out aid contributions and, therefore, information on donors' forward spending plans. She asked whether there were opportunities for enhancing the division of labour (enlarging the EU code of conduct to other donors) and whether partner countries could be expected to take the lead in managing the division of labour.

5. Participants, including several non-EU donors, expressed their support for the concept of division of labour but noted that in practice it was not an easy process. Some donors could face difficulties as they had to abide by previously established input targets, others could find it hard to make all government departments respect the code. Also, it was necessary to adapt the approach to in-country situations and recall that the ultimate objective was to make aid more effective. A distinction between large and small donors could be useful in this context – it was essential to stabilise the large volumes of aid while maintaining a certain donor diversity and expertise.

6. Participants commended the Secretariat for its study on concentration and fragmentation of aid. They found the information useful for planning aid allocations although recalled that political factors often determined final allocation decisions. Future analyses should take into account that fragmentation issues and transaction costs differed depending on country size. Suggestions for further work included a qualitative assessment of the fragmentation problem and study of delegated co-operation arrangements (at present not separately identifiable in DAC statistics).

7. The concept of comparative advantage was also discussed. Some participants found it too theoretical and not necessarily a good basis for discussion on the division of labour as cases of genuine donor comparative advantage were rare. Also, such reasoning did not necessarily match with the views on development of parliaments and civil society in donor countries.

I.B: Attracting a sufficient number of donors to fragile states

8. The Chair for breakout session I.B., *Mr. Jean-Marc Châtaigner, Co-Chair of the OECD-DAC Fragile States Group, France,* stressed that donors needed to know more about aid activities in fragile states. He presented the December 2007 Fact Sheet on Resource Allocation to Fragile States (www.oecd.org/dac/fragilestates/resource), which included data on both ODA and non-ODA flows and was warmly welcomed. He then introduced the two lead speakers.

9. Mr. Dankarami, Assistant au Commissaire Chargé du Développement, Niger, gave a presentation on the main problems facing Niger since the 1990s and introduced the instruments Niger had used to turn around the economic situation. These included the design of the PRSP, setting up a national bureau for statistics for delivering reliable statistics, and designing reforms guided by IMF. At present Niger's dilemma was that it was aid dependent and at the same time had difficulties in attracting donors to support its efforts to meet the MDGs.

10. Ms. Van Dyk, Deputy Director, International Development Cooperation, National Treasury, South Africa, described South Africa's double role as both a recipient and a donor and emphasised the advantages of South-South cooperation. African countries had welcomed South Africa's assistance as it had a good understanding of the development process through its own experiences. South Africa did not have formal laws guiding its aid but had started to develop a framework based on elements in line with the Paris Declaration (PD). South Africa saw the PD as a big step forward in achieving aid effectiveness and stressed the importance of the recipient countries leading round tables, alignment with the recipients' priorities and use of countries' own indicators in results based management. Ms van Dyk underlined South Africa's willingness to work with donors in Africa's fragile states and to share its experiences as being a recipient and a donor at the same time.

11. Many participants commented on the fragmentation problem and the lack of sufficient donors in fragile states. They agreed that a limited number of committed donors could be ideal as aid volatility was a recurrent problem in fragile states. With regard to the role of new emerging donors in fragile states, participants noted that recipients worked in similar ways with traditional and non-traditional donors, with

some of which, such as China, they had longstanding relationships. More country-based analyses were needed and improved donor coordination was essential when scaling up aid to fragile states.

SESSION II: MEDIUM-TERM PREDICTABILITY OF AID FINANCE

12. *Mr. Rwangombwa, Secretary General and Secretary to the Treasury, Rwanda,* gave a presentation on the challenges Rwanda was facing in its medium term expenditure planning due to incomplete and variable information on future aid flows. Rwanda's ODA in 2006 accounted for 27% of its GDP. Rwanda financed half of the budget by aid resources, which made it heavily dependent on aid. ODA would be one of the major sources of finance for the Economic Development and Poverty Reduction Strategy (EDPRS) for the period 2008-2012. Mr. Rwangombwa presented a telling slide that showed the lack of reliable information made the government's economic planning a 'nightmare'. The only hard information was on spending from firm commitments, which for most donors covered 1-2 years, whereas a 5-year horizon on donors' forward spending plans was needed. A rough assumption that donors would allocate aid in line with current volumes showed a gap of 25% in the financing of the EDPRS; even assuming some scaling up there would be a 12% gap. Hence there was a need to ensure that all aid aligned to this strategy.

13. *Mr. Plant, Senior Advisor, IMF,* made a presentation on IMF work to help countries deal with the macroeconomic implications of scaling up. In its programme design IMF had changed from helping LDCs stabilise their economies to help them move from stabilisation towards higher growth. These were two different kinds of activities and required different types of macroeconomic policies and programming. It also implied a different way for IMF to do business. To the extent aid was volatile, the problem for the central bank or the ministry of finance was to smooth this volatility over time. However, volatility was manageable if it was predictable, whereas unpredictable volatility increased the macroeconomic cost of managing the economy. It also increased the risk of distortions in the effectiveness of aid. IMF's role in the scaling up process would be to help governments design the macroeconomic policies to manage aid in an effective way. The fiscal programme had to be based on the PRSP and therefore there was a need for medium term plans, including on aid and debt. Planning aid on a year-to-year basis was effective neither at the macro or micro level. At present it was hard to make reasonable estimates on medium term aid flows. IMF was willing to work with donors in this area and accommodate predictable scaling up in its advice on funding scenarios.

14. Participants discussed the different constraints facing governments and institutions as regards future aid contracts and exchanged views on how to improve the predictability. Some participants wished to have more analysis on how unpredictable aid was affecting results at the macro and micro level. Others noted it was necessary for bilateral donors to work together in this process to raise credibility. As concluding remarks it was stressed that donors at HQ level would have to adapt their legal and administrative constraints to make more use of multi-year approaches. In partner countries they should synchronise with local planning timetables and address the issue of the capacity of local systems.

SESSION III: ENHANCING AID EFFECTIVENESS THROUGH LINKING RESOURCES TO RESULTS

15. *Mr. Kamugisha, Head of Policy Analysis Division, Ministry of Finance, Tanzania,* presented Tanzania's view on "Resource Predictability and Poverty Reduction Results". Producing results required appropriate planning, augmentation and predictability of resources and a strong monitoring system. Tanzania's overall development framework was contained in the National strategy for growth and poverty reduction, also called Mkukuta. The Mkukuta constituted the tool for resource allocation over the medium term. It has shown the need for improved planning and monitoring of results, the latter responding to a growing demand from national constituencies both in the recipient and donor countries. Medium term

predictability of resources was a major issue for Tanzania, as 40% of its budget was foreign financed. With regard to in-year predictability, development partners should eliminate the conditionalities. The Tanzanian government wished to engage with development partners on a strategy to increase the predictability of aid.

16. Mr. Treffers, Director General International Co-operation, Ministry of Foreign Affairs, Netherlands, gave his views on promoting action on in-country scaling up. The implementation of the international promises made at and since Monterrey was slow. The resources to scale up were lacking and the results were difficult to document. Therefore, in order to promote scaling up at country level, it was necessary to strengthen the link between resources and results as prescribed in the resources, results and partnership (RRP) processes. The preconditions for such a process are strong ownership in recipient countries, donors providing predictable and programmable aid and transparent monitoring of resources and results. Tanzania and Ghana were the first countries engaged in the RRP process.

17. All participants acknowledged that documenting results of aid was important to ensure accountability vis-à-vis national constituencies both in partner and donor countries. Some participants emphasised that it was important to distinguish between various accountability relations, i.e. vis-à-vis donor countries' tax payers and vis-à-vis the partner countries' national constituencies and populations. (Australia, for example, had recently introduced a performance assessment framework of its aid programme directed toward the Australian domestic audience.)

18. Aid programmes and instruments were increasingly being constructed in such way that disbursements could be linked to performance in terms of results (e.g. budget support instruments, US Millennium Challenge Corporation programmes). Many participants emphasised, however, that it was important to have a pragmatic approach to the results orientation of aid, since the complexity of the issue was often underestimated and this approach required a long term learning process both for partner and donor countries. In this context, it was crucial to increase capacity in monitoring and evaluation and to harmonise statistical systems in partner countries, to allow for an in-country dialogue with parliaments and the civil society.

19. The donors involved in piloting the RRP processes emphasised that these constituted a framework for mutual accountability and could contribute to delivering in-country scaling up for results, especially in the second generation of PRSPs. The RRP processes also aimed at strengthening existing partnership frameworks such as the CGs, round tables, etc. The Chair asked RRP donors to clarify the concept in a paper for future reference.

CONCLUSIONS AND NEXT STEPS FOR PROMOTING PREDICTABLE SCALING UP AT COUNTRY LEVEL, LINKED TO RESULTS

20. Dr. Bhattacharya, Bangladesh delivered three messages. First, he stressed the importance of distinguishing between the concepts of predictability and scaling up. Predictability did not necessarily lead to scaling up and visa versa. From the developing countries' perspective, the best-case scenario was predictable scaling up and the worst-case scenario unpredictable scaling down. Second, contrary to expectations the PRSP processes, even if based on ownership and in dialogue, had not led to scaling up. Third, he expressed his concern over donors not scaling up as expected. While many donors had fulfilled their Monterrey commitments for 2006, this had been due to exceptional debt relief.

21. Mr. Petit, Deputy Director General, European Commission, emphasised that 2008 was an important year in testing donors regarding aid levels and effectiveness. 2008 was a midpoint between the Millennium Declaration of 2000 and 2015 and many high level meetings were in view (Accra and Doha). It was time to move from rhetoric to action. All donors should scale up (the EU accounted for the biggest part so far). A second major challenge was to ensure effective use of additional aid resources; in this

context aid modalities and instruments needed to be reviewed. The EU Code of Conduct on Division of Labour in Development Policy was a major step forward, which other non-EU donors could follow.

22. *Mr. Bokarev, Deputy Director, Department for International Financial Affair, Ministry of Finance,* stated that Russia fully supported the consensus among donors as regards commitments on scaling up aid and the Paris Declaration. Russia emphasised the need for closer co-operation in the field, overall partnership development, division of labour and greater predictability in commitments (not only in respect to partners but also to financial institutions). Until recently, Russia's participation in development assistance had been limited, but due to its large economic and financial improvements it would now move to a new level of efforts. Russia's assistance would be based on a policy framework, adopted by the government, which built on aid effectiveness as framed in PD with sustainable poverty reduction as the main objective and MDGs as the basic reference point. Russia's scaled up aid would be mostly concentrated in neighbouring countries and in the sectors of energy, health and education. Russia would be channelling aid through the multilateral agencies and other traditional donors.

23. *Mr. House, Team leader, MDG Support Team, UNDP,* presented the recently launched MDG Africa initiative. Its steering group was discussing what could be done by the international community at the country level in Africa to make the international system work more effectively to accelerate the progress towards the MDGs in Africa. He presented the initiative's three objectives: 1) identifying practical steps and mechanisms for coordinated international MDG efforts in five areas (health, education, agriculture, infrastructure and national statistical systems); 2) concretise aid commitments and improve aid predictability and 3) support MDG operationalisation at the country level. Some of the key features of the initiative were to keep it simple, to increase international support for ongoing efforts to increase predictability, to translate global commitments into practical country level programmes, and to establish consensus around opportunities for scaling up in diverse of countries with specific needs.

24. *Mr. Braga, Senior Advisor, International Policy and Partnerships Group, World Bank,* noted that commitments to the IDA15 replenishment would be a test of the donors' scaling up. He pointed out that having a PRSP or equivalent was at best a necessary but not a sufficient condition for scaling up. Mr. Braga stressed that in respect of scaling up there remained a lot to be done, but one had to be careful in terms of expectations. There was a need to differentiate between volatility and predictability; the former was a backward looking and the latter a forward looking concept. Mr. Braga also emphasised that the lack of predictability was partly due to bureaucratic programming procedures in aid agencies. Furthermore a rise in overall budget support could decrease predictability.

CHAIR'S SUMMARY

25. The Chair, *Mr. Manning,* summarised the rich discussion under six headings:

I – Scaling Up

26. How real is scaling up? We must avoid 'hallucination' (i.e. commitment without implementation). Is scaling up in fact linked to results? Is it being constrained by local capacity, by policy shortcomings, or by lack of resources? Volume is one thing, but flexibility of instruments is another; are better-performing countries receiving greater flexibility of funding? The IMF's willingness to accommodate predictable scaling up that delivers real resources is important. In states in fragility there is often scope to scale-up and to take the opportunity of increasing the number of donors in a more co-ordinated way. Countries work in similar ways with traditional and non-traditional donors, with some of which, such as China, they have longstanding relationships.

II – Volatility

27. Volatility of aid flows still appears, on some measures, to be significant, even for the World Bank after its efforts to reduce it. Volatility is manageable if predictable, but a problem if it is not.

III – Predictability

28. It is predictable expenditure that matters. There has been progress on in-year predictability, for example in Ghana. Medium term predictability is still a 'nightmare' (to quote our Rwandan presenter). What can be done?

- *Donors at HQ* – more use of multi-year approaches within legal and administrative constraints, which also need to be addressed.

- *Partner countries* – Donors should synchronise with local planning timetables (the global funds have learned of the need to adapt) and address the issue of the capacity of local systems.

IV – Division of Labour

29. Participants were sceptical about the idea of comparative advantage of donors. There is progress at *country level* where the host country had a key role – true ownership – in reshaping the division of labour between its donors. But donors in country need strong support and encouragement from HQ. It will be interesting to see what information on progress with the Code of Conduct the EC collects from its members by next May. There was interest from non-EU DAC members in further work on division of labour prior to Accra.

30. Division of labour must be country-specific, for example a large number of donors may not be an issue where there is geographic division of effort as in the case of Afghanistan. Even large global donors will be small in some countries (and vice-versa); the issue is how to be present without imposing undue transaction costs.

31. The multiplication of aid channels will complicate things further. And there are no signs of increased concentration or scaling of the size of aid activities; for example the number of new commitments reported to the DAC's Creditor Reporting System has been increasing and represents some 35 – 40 000 new activities per year. Doubling aid to Africa should not mean doubling the number of activities!

V - Instruments

32. Most recipient countries receive aid through a wide range of aid instruments. The issue is what is the desired balance between them and what is the effect of each on volatility? How can the range of instruments be best organised for achieving results? It was suggested that volatility of the rate of spending on capital projects might have less immediate fiscal and monetary consequences than volatility of budget support, though the latter might in some countries be a preferred modality. Examples in the meeting of how to tackle volatility of budget-type support were the "MDG contract" advocated by the European Commission and some forms of multi-donor budget support. While the meeting did not test a consensus on this, a general response to good performance should be to improve the range of instruments, for example more use of budget support. But Tanzania warned of the perverse effect of losing its eligibility for IDA grants because it had brought its debt to sustainable levels.

VI – Results

33. Partner countries want poverty reduction results for their own good, not to impress donors. What is needed is major effort to strengthen local results frameworks and local accountability, building on existing local initiatives, not imposing new ones. Southern partners, such as South Africa, stress the importance of respecting local priorities, systems and indicators.

34. It is important to improve the quality of public financial management, leading to better monitoring and evaluation and fuller scrutiny of the executive. Donors need to respond to results with more aid in more flexible forms. The more donors use flexible funding, the greater will be the demand to see results. There is therefore a need to invest in statistics, impact evaluation, and research (and stories) to show what aid-supported (and other) projects and programmes are achieving. It is important that the performance of donors continues to be monitored globally; partner countries should be in the lead in monitoring what is going on locally.

35. The most ambitious target of the Paris Declaration is that every country must have a framework for mutual accountability by 2010. This will involve greater trust, peer learning and peer pressure to make it a reality. While primary accountability is to local citizens, partners recognise the right of donor taxpayers to ask about results, providing this is a secondary objective; a focus on ultimate outcomes, notably poverty reduction, will help to achieve this balance.

36. Improved trust and mutual accountability for results should go together. This should be helped by a general move from an excessive focus on measurement of inputs to an open dialogue, owned by the country, about the desired outcomes and results and the resources required, national and external, to achieve them.