This booklet provides an overview of the “Financing Development 2008: Whose Ownership?”, a publication of the OECD Development Centre.

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The Development Centre of the Organisation for Economic Co-operation and Development was established by decision of the OECD Council on 23 October 1962 and comprises 23 member countries of the OECD: Austria, Belgium, the Czech Republic, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Korea, Luxembourg, Mexico, the Netherlands, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, Turkey and the United Kingdom as well as Brazil since March 1994, Chile since November 1998, India since February 2001 Romania since October 2004, Thailand since March 2005, South Africa since May 2006 and Egypt, Israel and Viet Nam since March 2008. The Commission of the European Communities also takes part in the Centre’s Governing Board.

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For an overview of the Centre’s activities, please see www.oecd.org/dev.
Whose Ownership? is the second volume in a series of OECD Development Centre publications on Financing Development. It follows the first volume, published in 2007, entitled Aid and Beyond. The series has been conceived to accompany the OECD Global Forum on Development, an informal series of events in which policy makers, researchers and representatives of civil society and the private sector are discussing how to make development finance more effective. More information on the Global Forum on Development is available at www.oecd.org/development/globalforum.

In its second year of activities, culminating in an Annual Plenary on 20 May 2008, discussions in the Forum have been focused on how the principle of ownership can be put into practice. Whose Ownership? was officially launched at the Plenary. The publication is also devised as a basis for discussions on ownership at, and following, the Third High-Level Forum on Aid Effectiveness, to be held in Accra on 2-4 September 2008.

OECD Development Centre colleagues provided invaluable comments on the various chapters, particularly Dilan Ölcer and Henri-Bernard Solignac Lecomte. Gratitude also goes to colleagues in the OECD Development Co-operation Directorate, particularly its Director Richard Carey and Counsellor Brian Hammond, who continue to be partners in the organisation of the Global Forum on Development. Thanks are also due to the Swiss Agency for Development and Co-operation, the French Ministry of Foreign Affairs and the Dutch Ministry of Foreign Affairs for supporting the Development Centre’s activities on development finance, including the Global Forum.

Chapter One has benefited greatly from the co-ordination of case studies by Bill Morton of the North South Institute in Canada and Antonio Tujan Jr. of Ibon Foundation in the Philippines. The authors of the chapter would also like to thank Matthew Martin (Development Finance International), James Deane (BBC World Service Trust), Simon Burall and Alan Hudson (both of the Overseas Development Institute, UK) for their advice in the organisation of an Informal Experts’ Workshop on Ownership in Practice, held in Sèvres, France, on 27-28 September 2007. Earlier versions of Chapter Two included substantial contributions from Louka T. Katseli, former Director of the OECD Development Centre, Daniel Cohen, Special Advisor to the Development Centre, and George Mavrotas, Chief Economist of the Global Development Network. Chapter Three benefited from the
valuable research assistance from Aline Gatignon and Karin Weber, and Development Centre colleagues Ki Fukasaku, Charles Oman and Ken Ruffing provided stimulating comments on Chapter Four.

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Over the past decade, the principle of “ownership” has found widespread support in the international debate on development co-operation. The 2002 Monterrey Consensus and 2005 Paris Declaration on Aid Effectiveness agree: countries must own their development policies if their financial inflows are to reduce poverty or stimulate growth.

Unfortunately, if discussions in the OECD Global Forum on Development are anything to go by, both donors and developing-country governments are having a hard time putting ownership into practice. Is this because poverty reduction strategies are too strongly driven by aid donors? Is it because governments do not give sufficient space for parliaments or civil society to contribute to better policy? Or is it because the increasing complexity of development finance simply overburdens developing-country administrations seeking to take ownership of their development policies?

These questions are captured aptly by the title of this year’s volume of *Financing Development 2008: Whose Ownership?* The publication takes a variety of approaches to the ownership question, inspired by discussions and case studies at our Ownership in Practice Workshop in September 2007. It casts an experts’ eye on the many efforts being taken to render the traditional aid system more effective, but they also peer beyond the system to examine the ever-growing importance of new actors in development finance: non-governmental organisations and private banks.

Policy makers now have a number of opportunities to deepen their understanding of ownership, notably at the 3rd High Level Forum on Aid Effectiveness (HLF-3, Accra, 2-4 September 2008) and the UN Follow-up Conference on Financing for Development (Doha, 29 November-2 December 2008).

We will see how well they have done in one year’s time, when our third volume of *Financing Development* focuses on an array of financing instruments for development. It will examine how policy makers can help catalyse private investment, support think tanks in generating home-grown knowledge for development and rethink the role of conditionality in aid relationships.

Javier Santiso
Director, OECD Development Centre
May 2008
The 2002 Monterrey Consensus and 2005 Paris Declaration on Aid Effectiveness agree that countries must own their development policies if their financial inflows are to reduce poverty or stimulate growth. Unfortunately, donors and developing-country governments alike are struggling to put the principle into practice without much success. In 2007/8, the OECD Global Forum on Development, a series of events exploring how to finance development more effectively, has made this failure its major concern.

Financing Development 2008 asks: “Whose ownership?”. It is therefore a companion to the debates and discussions taking place in the Global Forum.

The authors take a variety of approaches to the ownership question. Inspired by the discussions and case studies presented at a workshop on “Ownership in Practice”, held in Paris in September 2007, Chapter One asks what developing-country ownership really means. From an effectiveness perspective, who should own development policies and who actually owns them? Related to these questions, Chapter Two looks critically at the international development finance system and finds that its complexity interferes with developing-country ownership. Looking beyond governments, how might aid effectiveness principles apply to the activities of other actors? Chapter Three examines the role of non-governmental organisations in development financing by asking whether NGOs might need their own version of the Paris Declaration. The relationship between ownership, investment and the private sector is the subject of Chapter Four.
CHAPTER ONE

Broader Ownership for Development

Following an account of how ownership emerged in the intergovernmental discourse, the authors of Chapter One take a close look at the definition of the principle in the 2005 Paris Declaration on Aid Effectiveness. They argue that the Declaration, which refers to ownership as developing countries “(exercising) effective leadership over their development policies and strategies...”, is the most poorly defined of the Declaration’s principles.

In particular, the authors draw attention to the controversial way in which progress in putting ownership into practice is currently being measured. Whether or not a country owns its development policies is determined mainly by the World Bank and is linked directly to a country’s adoption of a Poverty Reduction Strategy Paper, a document requiring the Bank’s approval. Given the active role donors still appear to play in designing these Papers, their dominance in the production of development knowledge and reluctance to explore alternatives to policy conditionality, the term “ownership” has thus become for its critics a euphemism for developing countries’ adoption of externally conceived policies.

The authors also point to the fact that the interpretation of ownership by the Paris Declaration centres on government, despite the recognition that actors outside government have crucial roles to play in implementing development programmes. While the participation of these actors in the design, implementation and monitoring of policies is improving, a number of actors, particularly parliaments and the media, remain sidelined. The Paris Declaration does contain commitments related to participation, but moving forward by setting measurable targets for participation may prove difficult. First, governments are currently not open to revising the Declaration. Second, externally imposed democratic processes may be regarded as an illegitimate interference by donors in national affairs.

To conclude their chapter, the authors outline four recommendations for policy makers seeking to put ownership into practice. They ought to:

- Attack the barriers to local knowledge production, so that developing countries can explore and choose among alternative policy frameworks using their domestic resources;
- Commit to legal frameworks that promote wide societal participation in policy design, debate, implementation and monitoring;
- Establish more diverse participatory-ownership monitoring mechanisms; and
- Review conditionality and adapt human-resource policies.
The Accra High-Level Forum (HLF-3) in September 2008 will be the first such meeting hosted by a developing country, and one can hope that it will take up ownership as a central theme. Even if the Declaration itself remains untouched, the principal output planned for the Forum, the Accra Action Agenda (AAA) could provide a vehicle for broadening and deepening the interpretation of ownership.

CHAPTER TWO

Ownership in the Multilateral Development Finance Non-System

The second chapter highlights the disorder and inconsistencies in the international development finance architecture and emphasises various symptoms and challenges associated with its lack of coherence. It also suggests some possible avenues for reform in order for the aid system to raise delivery efficiency.

International development finance has evolved into a complex system with emerging actors, both private and public, raising sources by using new instruments and channels. Rather than the scaling up of programmable aid resources, there is a scaling up of the number of aid providers. This multitude of actors and financing channels, combined with the broadening goals of traditional development assistance (which now also include global and regional public goods) make up an international development finance architecture which can be characterised as spontaneous disorder, or a non-system.

Figure 1 shows the cumulative number of development financing mechanisms to finance global public policy goals.
As long as the multilateral system stays at current levels of incoherence, its capacity to deliver development is dubious. Not only may there be vested interests within the donor community, but the current system also enables mission creep, duplication of country allocation, fragmentation, loss of leverage and a weakening of traditional multilateral agencies. Through the channelling of Official Development Assistance (ODA) resources multilateral agencies and its experts may hamper, rather than strengthen, a true democratic recipient-country ownership. The current international development finance architecture is obviously too complex and inefficient to be owned as it implies an excessive burden on recipient countries.

In order to increase the efficiency of development finance in delivering results, reforms are needed. Although a multitude of multilateral delivery channels may be useful for diversified policy advice and aid stability thanks to diverse sources, a harmonised approach will raise the standard of aid delivery and lower the absorption cost to recipients. As part of required streamlining, institutional specialisations and coherence-performance measures of the multilateral system are suggested.

Furthermore, a country-based delegated co-operation arrangement is proposed in order to help strengthen recipient countries’ capacity and leadership. Such an arrangement implies that a lead donor acts with authority on behalf of other donors and takes on responsibility for one element of a project cycle, a complete sector or even a country programme.
A Paris Declaration for NGOs?

A declaration similar to the Paris Declaration on Aid Effectiveness, which exists for official donors, is very much needed for NGOs as well.

The primary reason for such a declaration is the lack of co-ordination among donors and fears about redundancy in aid delivery that would be costly for the recipients. Further, the significant size of the international NGOs’ budgets (see Figure 2), which according to recent data have been underestimated in the past and grown dramatically during the last decade, calls for an understanding of best practices about how NGOs deliver their support to poor countries. Consequently, Northern NGOs can be considered as donors in their own right and therefore the principles of the Paris Declaration ought to apply to them equally.

Figure 2. Budgets of Official Donors and NGOs in 2006 ($ billion)

Source: OECD International Development Statistics for Bilateral aid and Annual Reports of international NGOs for NGO aid.

StatLink ➤ http://dx.doi.org/10.1787/314328674730
The core principles of the Paris Declaration on Aid Effectiveness, namely better co-ordination and harmonisation among donors, better alignment of donors with the agendas of recipients, and more mutual accountability between donors and recipients, are not sufficiently put in practice among international NGOs. These deficiencies cause among others unequal distribution of international NGO activity around the world, as illustrated in Figure 3, place a disproportionate administrative burden on well-intentioned local organisations, and create greater access to funding of *mala fide* local organisations. Moreover, they lead to decreased ownership by local organisations.

**Figure 3. Distribution of NGO Aid in 2005**

![Map showing NGO aid distribution](image)

Source: Koch, 2007. Brackets contain the numbers of countries that fall within the categories. [StatLink](http://dx.doi.org/10.1787/314342482514)

Figure 4 demonstrates that only 6 per cent of the representation on international non-governmental development organisations’ governing bodies comes from developing countries.
Increased harmonisation and co-ordination would lead to efficiency gains through improved distribution of resources, reduced overhead costs for local organisations, and decreased leakage of aid.

A number of legal and financial obstacles are both causes and symptoms of the current substandard underdeveloped alignment and accountability practices of Northern NGOs. For Southern NGOs, legal disempowerments include restrictions on applying for funding in a donor country, the shortage of legally formalised feedback mechanisms within Northern NGOs, and the absence of formal feedback mechanisms external to organisations. This leads to financial imbalances between Northern and Southern NGOs, reinforced by disadvantageous contracts that Southern NGOs sign and the lack of a local fundraising pool of Southern NGOs. Changing the unequal power relations between Southern and Northern NGOs can contribute significantly to increased alignment and accountability.

The “Nordic plus” donors have already started their efforts to align their NGO aid to the principles of the Paris Declaration. For instance, their embassies in several countries are co-operating in developing decentralised co-financing systems and the reporting systems are also being streamlined. Other important steps towards more harmonisation, co-ordination, alignment and accountability are taken by organisations such as BRAC and ActionAid International, and other NGOs are starting to work with common codes of conduct and charters. These efforts need to be deepened, expanded and accelerated to increase the efficiency and effectiveness of NGO aid.
CHAPTER FOUR

Private Banks in Emerging Democracies

Some empirical studies have analysed the political drivers of private international liquidity, but paradoxically very few have looked at the political economy of bank flows. Even less research exists on the role of politics in explaining cross-border banking movements towards emerging democracies. In order to find out whether private banks contribute to political development and reform ownership by lending to emerging democracies, the chapter links compiled indicators on democracy, policy uncertainty and political stability to international bank lending flows from data developed by the Bank for International Settlements. It specifically tries to answer two questions. Do bankers tend to prefer emerging democracies? Do they reward democratic transitions as well as policy and political stability?

The chapter finds that politics matter and that increases in democracy indicators have a positive impact on the entry of private foreign claims. Private banks reward emerging economies and tend to increase their lending to them. Annual growth in bank flows usually booms in the three years following a democratic transition, especially in Latin America. Yet a transition towards democracy not only favours foreign bank inflows but also implies that emerging borrowers have easier access to foreign private bank lending. Furthermore, foreign banks seem to be indifferent to increases in micro-democratic breakdowns emerging from democratic transition.

The common view is that bankers tend to avoid politically unstable countries. However, bankers tend to be neutral to democratic political instabilities, as has been the case in Latin America.

Banks also seem indifferent as to whether centre, left or right-wing governments are in power and whether they have an absolute majority or operate in coalition with other parties.
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