NOTE TO EDITORS

For the attention of development aid correspondents

Please find attached a statement made by Mr. James H. Michel, Chair, OECD Development Assistance Committee, at the 49th meeting of the Development Committee of the IMF/World Bank, Madrid, 3rd October 1994
Introduction

This brief note addresses the question of what constitutes effective aid, considers what might be done to make aid more effective, and describes some current efforts toward that end. Intended to complement the Secretariat’s comprehensive paper on the same subject, it reflects the author’s individual perspective as Chair of the OECD Development Assistance Committee and his observations and experience in managing and co-ordinating programmes of development co-operation.

Aid is one of many instruments available to influence the evolution of human society toward sustainable development. It is focused on the poor countries where most people live in poverty, without access to adequate income to satisfy their basic needs. It is in these countries where a billion people go hungry every day. It is in these countries where the vast majority of almost 100 million new inhabitants are added to the world’s population each year. It is in these countries where most of the world’s biodiversity is to be found, and is under intense pressure from burgeoning populations. And it is in these countries where frustration over a lack of opportunity and vulnerability to human and natural disasters is producing a growing volume of alienation, conflict, epidemic disease and migration.

Sustainable economic and social development is not just an aspiration of people who live in poor countries. It is equally important to the inhabitants of the industrialised countries. The consequences of the growing disparity in living conditions and the absolute pressure on the earth’s regenerative capacity threaten the quality of life in all countries. On the other hand, sustainable development opens up enormous new opportunities for international co-operation, including economic co-operation, that is mutually beneficial to developing and industrialised countries.

Effective Aid and Effective Development

When we speak of effective aid we should be thinking of aid that is effective in contributing to sustainable development. If development does not occur it makes no difference how well the projects are designed or managed or how impressive the statistics of roads paved, civil servants trained or institutions reformed. The test by which we measure the effectiveness of aid should be whether development was facilitated because of it.
If the standard for evaluating the effectiveness of aid is whether it has a positive impact on "sustainable development", it is important to explain what is meant by that term. There are as many definitions of sustainable development as there are authors on the subject. In this note, the concept envisions a continued process of both growth and increased participation that can be maintained even after the aid has come to an end. Capacity to continue such a process embraces considerations of social, economic and political as well as environmental sustainability.

At the national level that means a society that is capable of continuing along a path in which there is --

(1) diminished poverty and increased access by people to the means to satisfy their basic needs and improve their standard of living, including access to quality health, family planning, education and other social services that will help enable them to realise their full potential; and

(2) greater opportunity by people to participate in the political and economic processes and decisions that affect them and to pursue their interests with confidence that their rights will be respected and protected.

At a global level, sustainable development should be characterised by increased integration of developing countries into the global economy. It should contribute to an expanded range of shared interests and values that will diminish risks of conflict and facilitate co-operation among developing and industrialised countries in addressing global issues of common concern, including the interrelated issues of environmental degradation, high rates of population growth, epidemic disease, conflict, and international migration.

There is a broad international consensus that sustainable development is most likely to occur in an environment of political and economic stability that is sustained by good governance, popular participation, investing in people, reliance on market forces, concern for the environment and a vigorous private sector. This consensus can be described in various ways, and there is room for debate about the relative importance of various elements in particular cases. But the consensus is genuine.

There is also broad agreement that nations embark on a path toward sustainable development primarily for internal reasons. Development tends to occur when the elements within a society come to support agreed strategies that are reinforced by dynamic interaction at all levels among a committed political leadership, competent public and private institutions, and a public who demand performance and have the power to hold their government leaders and institutions accountable. In these circumstances external actors can help to strengthen capacity, augment resources, cushion the shocks of transition, and accelerate the realisation of benefits. No amount of external political will, determination or resources can serve as a substitute for local initiative to produce sustainable development.
A third consideration on which there is broad agreement is that sustainable development takes a long time. The process is characterised by lags between the taking of policy decisions, the implementation of those decisions and the appearance of results. These lags often lead to confusion and debate about cause and effect relationships between policies, actions and consequences. Moreover, truly sustainable development means human development and broad participation, including learning from experience. While dramatic changes have become evident in many developing countries in a few decades, comparable to evolutions that required much longer in Europe and North America, we are still dealing with periods that exceed the normal political attention span. Sustaining momentum for development co-operation efforts over several decades is a major challenge.

Effective aid must take into account these three factors:

-- the importance of stability and a sound policy environment;

-- the need for local ownership, reinforced by dynamic interaction among committed political leaders, competent institutions and informed public opinion; and

-- the long-term nature of the development process.

This creates something of a paradox for the external donor. In many poor aid-dependent countries political and economic instability perpetuate uncertainty and inhibit initiative. Often, weak or corrupt institutions are incapable of maintaining a sound policy environment. In a vicious circle, the people don’t expect much of those weak institutions and, therefore, don’t demand reform and improvement. Political leaders, not being under strong public pressure for institutional reform, give this low priority. Without attention and the investment of resources from political leaders, the country’s institutions remain incapable of performing well.

If the donor does nothing while waiting for a propitious environment and local demand to manifest themselves, the result may be continuing deterioration which will further complicate later development efforts. On the other hand, if the donor attempts to be prescriptive in advancing projects and activities for which there is insufficient local demand or capacity the results will probably be equally futile. Moreover, the limited prospects for successful donor-driven development efforts mean that those efforts are unlikely to produce credible evidence of progress that would help to maintain long-term support in the donor country.

**Breaking Out of the Vicious Circle**

All of this suggests that development co-operation should begin with supportive activities that foster the degree of trust, sense of shared interests and confidence within the developing country that are necessary to the design and implementation of locally-owned development strategies. The
specific activities, of course, would vary considerably from country to country and from region to region, but would concentrate on building local capacity and demand. Priority areas for concentration of efforts and resources should be chosen with due regard for those factors mentioned above as important for success -- stability, good governance, popular participation, investing in people, reliance on market forces, concern for the environment and a vigorous private sector. The programme should evolve as the parties gain confidence and as the recipients (both governmental and non-governmental) gain in capacity to take more and more of the lead responsibility in a genuine partnership. Over time, sound economic and social policies implemented through competent institutions and broad participation should enable the recipient country to build domestic savings and attract private capital in international markets, lessening aid dependence and permitting a further evolution in the development co-operation relationship.

The international community has learned that, from the developing country side, development is more than aid projects. The recipient country’s economic and social policy environment and the political dynamics which produce that environment are crucial factors. In the same way, we are coming to recognise the importance of coherence in donor policies, both at the national level and between donors. An integrated approach to encouraging the conditions conducive to sustainable development is important. The multiplicity of each donor’s policies in its relations with developing countries and multiplicity of policies among donors are central to the consideration of aid effectiveness.

Examples of internal inconsistencies within donor governments are well known -- the government that reduces development aid to countries that spend large amounts on arms, but also finances arms sales to such countries; the government that assists in strengthening capacity to produce goods for export and then erects barriers to its own country’s importation of those goods; the government that assists small farmers to increase productivity and then sells competing products at subsidised prices in the same markets. These kinds of inconsistencies cannot help but to undermine the effectiveness of aid. They result from policies not under the control of aid agencies and greater coherence will require higher priority for sustainable development in inter-agency deliberations. Perhaps the Development Committee, with the strong representation of Finance Ministers within its ranks, could help to diminish these kinds of inconsistencies.

The other kind of inconsistency might be described as a weakness of international co-ordination. When the aid recipient has not yet acquired the capacity to take the lead in managing development co-operation relationships there is a high risk of chaos. Each donor is free to offer advice, establish conditions of performance, insist on compliance with its own accounting procedures, and otherwise make demands of usually weak host-country institutions without regard for the simultaneous actions of other donors in the same country. The recipient country tends to accept these burdens, even though they impose major distractions on limited management resources and institutional capacity. This kind of inconsistency is more within the control of the aid agencies and they bear much responsibility for diminishing it.
Addressing the individual and collective inconsistencies of donors would be facilitated more than anything by increased recognition of the central importance of development for the security and well being of the people of the industrialised countries. Aid cannot be treated in isolation from issues of debt, trade and investment, and indeed the entire panoply of global issues -- from the environment to AIDS to conflict resolution to migration. Aid agencies need to accept that their work is relevant to that of other ministries and other ministries need to elevate the importance of development objectives and development co-operation. We are seeing more integration of aid efforts into policy decisions in the international responses to complex emergencies. We need to extend that integration into an international strategy of crisis prevention and sustainable development if relations with developing countries are to be maintained on a more constructive basis than the present emphasis on crisis management.

**Human Security as a Unifying Rationale**

The citizens of the industrialised countries have repeatedly demonstrated their humanitarian compassion and their concern for the disadvantaged. The challenge now is to move beyond those motivations to a new vision of a mutually beneficial development partnership. Of course, citizens and political leaders in the industrialised countries should care about greater equity and reduced suffering for other human beings. But they should also care about sustainable development because without it many interests of the industrialised countries will suffer and their own people will be less secure. Human security should be a unifying objective that joins governments and peoples in support of sustainable development.

The people of the industrialised countries are concerned about preserving the environment, limiting population growth, controlling the production and transit of drugs, and discouraging conflict that produces suffering and mass migration. Sustainable development -- development that diminishes poverty, improves access to the means to satisfy basic needs and increases opportunities to participate in economic and political processes and decisions -- is a direct and effective response to these concerns. Greater human security in the developing world thus translates directly into greater human security in the industrialised world as well.

The shared objective of human security would thus seem the most powerful argument in favour of increased recognition of the central importance of sustainable development on the international agenda. Moreover, concentrating on human security as the predominate shared objective seems most likely to shape development co-operation in ways that will command greater prominence in international relations, broader popular support and better results. Development co-operation that is focused on human security can be expected to be people-centered. Efforts that are people-centered, in turn, tend to be more credible and popular. What we have learned over several decades of progress and setbacks about the importance of popular participation in development suggests that people-centered development efforts are also likely to be the most effective.
Current Efforts

It is satisfying to be able to report that some useful work is underway under the auspices of the Development Assistance Committee of the OECD to improve the effectiveness of aid.

The DAC has developed an extraordinary body of work in the form of the "Principles for Effective Aid." These DAC Principles, addressing such diverse themes as aid co-ordination, technical co-operation, environmental impact assessment, women in development, and evaluation, provide authoritative policy orientations and operational guidance for Member countries. Each set of Principles is the result of extensive staff work, deliberations by experts from Member countries and (in recent years) from developing countries as well, consultations with multilateral organisations (especially the IMF, World Bank and UNDP), and review and approval by senior policy officials of the DAC Members. Published in 1992 as the "Development Assistance Manual", the Principles have since been augmented by the adoption of two sets of orientations of fundamental importance. These are the Orientations on Participatory Development and Good Governance, adopted in December 1993, and the Orientations on Co-operation in Support of Private Sector Development, adopted in June 1994.

The emphasis of work in the DAC is increasingly on outcomes -- what is happening in individual countries and regions, what impact programmes of international co-operation are having, and how international programmes might help achieve more positive development outcomes. With this sharpened focus, the DAC Principles are taking on increased prominence in the regular peer reviews of the performance of Member programmes. The publication of these peer reviews, a practice initiated this year, should provide an additional incentive for greater coherence and consistency.

The Principles are also being accepted as a point of reference for collaboration with multilateral organisations to further aid efficiency and effectiveness. An example is the use of the DAC Principles on Technical Co-operation by the informal network that was established this year, with representation from several DAC Members as well as from the World Bank and UNDP, to devise and recommend ways to improve the management of this important development resource.

The DAC is now disseminating the Principles to developing countries as indications of the best current thinking and practice of DAC Members. A workshop organised early this year in co-operation with the Government of Turkey used the DAC Principles as a basic instructional material for engaging policy leaders from the Central Asian republics on development issues. This kind of activity, which we intend to continue, has the combined advantages of helping the participating developing countries to manage development co-operation activities and also reminding the participating donors of standards to which they had agreed.
In addition, the DAC is working closely with multilateral donors and international experts on the study of indicators of development needs and progress. This work is expected ultimately to enable us to provide Member countries with more specific information that they may find useful in making decisions about the volume, allocation and content of their aid programmes. And we are looking to initiate a pilot activity in 1995 that will augment our traditional donor-based aid reviews with an examination of the impact of all donors in selected developing countries. These studies should prove instructive as to our understanding of the key issues of donor coherence and co-ordination.

One broader current effort within the OECD should also be mentioned. That is the Secretary-General’s linkages study. Undertaken by the Development Centre under the personal direction of Deputy Secretary-General Makoto Taniguchi, this exploratory effort examines the implications of linkages with OECD Members for sustainable development. The study explores a broad range of linkages for fourteen major developing countries* and includes contributions from many directorates and offices within the OECD Secretariat. It is focused on results and views development as an integrated process. These features should make it an important resource in efforts to shape effective development co-operation strategies and to broaden international understanding of the links between sustainable development and human security.

**Conclusion**

Aid can be effective for advancing sustainable development. In order to fulfil that role, it must be integrated into the entire range of issues and instruments that enter into relations between industrialised and developing countries. It must be used, within the framework of coherent donor policies, to encourage and support locally-owned participatory development efforts. Most important of all, the objective of sustainable development must be given a more central and prominent place on the international agenda. Current efforts to increase the effectiveness of aid need to be continued and expanded so that the relevance of sustainable development and increased human security to the interests of the industrialised countries and their people will become more broadly apparent, and so that the potential contribution of aid within a broader framework of development co-operation will be better understood.

None of this is easy. But none of it is impossible. The question then is whether it is worth the effort. As we commemorate the fiftieth anniversary of the Bretton Woods institutions we can imagine what the world would have been like without the development progress that we have witnessed since those dark days of World War II. With the same kind of vision in the far less dark days of 1994 we can act to consolidate progress and preserve opportunities for future generations. Effective aid can be a useful tool in this work. It is up to all of us to make it so.

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* The countries studied are Algeria, Bangladesh, China, Colombia, Egypt, India, Indonesia, Iran, Nigeria, Pakistan, Peru, Philippines, Saudi Arabia, and Venezuela.