

**MAKING AID RELEVANT –
CRITICAL ISSUES FOR AID
ARCHITECTURE AND AGENDA,
2005-2010**

A discussion paper for Actionaid International
FEBRUARY 2004

Abbreviations used

BWIs:	Bretton Woods Institutions
CSOs:	Civil Society Organisations
HIPC:	Heavily Indebted Poor Countries
IMF:	International Monetary Fund
INGO:	International Non-Governmental Organisation
LICs:	Low income countries
MDGs:	Millennium Development Goals
MICs:	Middle Income countries
NNGO:	Northern NGO
PPA:	Participatory Poverty Assessments
PRSP:	Poverty Reduction Strategy Paper
SNGO:	Southern NGO
WB:	World Bank

Making Aid Relevant: Critical Issues for the Aid Architecture and Agenda, 2005 – 2010:

A Discussion Paper for ActoinAid International

“Some Northern NGOs which have been among the leading critics of SAPs and at the forefront of the struggle for debt cancellation have bought the BWIs’ propaganda. They have found some merits to PRSPs and think that with an emphasis on more spending or social sectors, PRSPs could help alleviate poverty, despite the fact that they leave intact the neoliberal macroeconomic framework.....”¹

Introduction:

In the last fifty years, foreign aid has followed a familiar pattern: every agency has set its own course, own rules and conditions, and imposed its own will on the debtors, and all being moderated by the IMF and World Bank under the rubric of economic growth and market-orientation. The signing of the UN Millennium Declaration in September 2000 signalled a departure from past when the entire donor community set a ‘mutual’ target in the form of Millennium Development Goals (MDGs), whereby ‘aid’ began to take a more ‘poverty focused’ direction. Hopes were raised again that the aid system was gearing itself up to address the challenge of fighting poverty and social exclusion affecting at least 2 billion people, mostly women and children.

A new framework/architecture of aid for the period 2005-2010 is now being debated. The meeting of the UN special assembly to assess progress on the MDGs in 2005 is giving extra impetus to debates about the overall aid architecture. It is therefore time to take stock of the lessons and make sure that the new architecture that is put in place does deliver the results² that the international community are generally agreed on.

Are the new hopes justified? Or are the poor going to be let down once again, as has happened in the past five decades of development aid?

This paper attempts to summarise for ActionAid the critical issues and debates around global aid system and how it impacts poverty, and identifies several questions for global civil society system in its work with the poor. The paper does not attempt to provide answers to the issues raised, as it is written

¹ Demba Mousssa Dembele in “Debt and Destruction in Senegal: A Study of twenty years of IMF and World Bank Politics”, Quoted in Arrested Participation: The Failure of the PRSP Process, ActionAid USA (2003)

² Millennium Development Goals (8 Objectives, 18 targets). See www.developmentgoals.org

with a view to provoke debates and discussions. The paper is set out in five key sections as follows:

1. The political economy of aid
2. Poverty Reduction and Aid – MDGs, PRSPs – debates and critical issues.
3. Aid-trade-debt nexus and poverty.
4. An overview of the aid system – current trends and the aid architecture
5. Challenges for organisation like ActionAid and its partners.

The political economy of aid:

“In the 16th century the impulse to help turned to the conquered territories overseas in reaction to the indescribable atrocities committed by the conquistadors against the inhabitants of the Caribbean. To be sure, the natives had first to be raised by papal pronouncements to a status appropriate to salvation, that is, they had to be made *capable of being helped*³”.

In the 21st century, the Pope no longer plays this role. The IMF and World Bank have taken over the charge of spreading the new gospel. Aid (and private investments) will go to a country only if these two institutions have pronounced the country as *capable of receiving aid*.

It is important to understand a few historical facts about the evolution of aid in the post-war era. The Marshall plan was the first official aid in the modern period and to a large extent it inspired the development aid architecture that evolved in the 1950s. The Marshall plan achieved two things: (a) only a reconstructed/recovered Europe could salvage America’s post-war stagnating economy by increasing the demands in Europe, and (b) established America’s position in the comity of nations as the leader of the ‘free’ world.

Another important fact that stands out from the first fifty years of aid is that it has been guided predominantly by four considerations:

- (a) security (bulwark against the rising tide of communism in the cold war period);
- (b) foreign policy considerations based on donors’ strategic interests which often propped up political and economic systems that are now some of the failed/failing states, like Afghanistan, Iraq, DRC, parts of West Africa, Sudan and Somalia etc., for example⁴;

³ The Development Dictionary – A guide to knowledge as power: “Helping”, Marianne Gronemeyer

⁴ The US aid to a large degree went to prop up client states. In the 1980s, Somalia and Sudan received large amounts of US aid as a product of political alignments.

- (c) economic interests, primarily in opening new markets and developing captive suppliers of primary commodities; and
- (d) domestic special interests, e.g., the farmers lobby in the US and Western Europe which has been strong supporter of food aid, private contractor groups doing business⁵ with foreign governments, etc.

Aid began the day Harry Truman announced to the world that 'there is a moral obligation to help the 'underdeveloped' parts of the world'. And that's the day when 'development' began, *circa* 1949. The notion of development that came with aid was seen as a linear process, a journey that America (and Western Europe, under the Marshall Plan) had already gone through, and the 'underdeveloped' countries would now follow the same route. And that is the dominant paradigm of 'development' and aid modern economic theories have espoused for, and most countries of the world have accepted, willy-nilly.

The fact of the matter remains that aid and development are, to use Churchill's description of democracy, one of '*the least bad things invented*'. Despite the inherent contradictions in the twin concepts of aid and development, they have the potential to offer space to work towards reducing poverty, inequity, vulnerability and issues of sustainability.

But to do that would require, almost as a precondition, more radical steps aimed at restructuring the power relationships that underpin the interactions between the North and the South – where the other more self-seeking needs for engagement by the North are subsumed to a political will to develop the South.

Debates on aid invoke different reactions from the civil society. Broadly, there are three spectrums:

(1) a section of civil society takes a constructively critical stance on the aid system and advocates ways to make it more effective; they argue that if properly targeted and delivered at right levels, aid can help poor people who are not reached by other capital flows;

(2) Another section considers that the current aid architecture is heavily controlled, dominated by and subservient to the interests of a few industrial countries and in its present form can not answer the needs of the developing world; and

⁵ Donor country contractors and suppliers lobby hard to be rewarded with contracts relating to aid projects. CIDA for example notes that 70% of its aid is spent in Canada (Raymond F Hopkins, "Political Economy of foreign aid" in Foreign Aid and Development). No clear figures for the US aid are available, but if one considers the way the contracts are being awarded to US-based companies in Iraq and Afghanistan alone, one wonders what proportion of the \$87 billion the Bush Administration has earmarked for these two counties would actually be spent in the recipient country. More than half of French aid is tied to domestic enterprises.

(3) a more radical opinion holds that aid is aimed at fostering a neo-colonial relationship between the donor and the recipient. "Increasing aid flows under the present circumstances will only increase conditionality and will therefore continue to undermine developing country sovereignty⁶". It is important to note that while the first two groups acknowledge the role of and need for (good) aid, the third group is opposed to the idea of aid.

There is perhaps an element of truth in all of these different positions and events in recent years, before and after the Monterrey consensus, have made many change their positions.

Poverty Reduction and Aid – Debates and critical issues:

The Monterrey Consensus:

The Monterrey conference was hailed as a success because it brought a new momentum and hope to the aid system and resulted in pledges of additional funds. It dealt with many of the weaknesses of the past, and brought a lot of positive development together:

- Clear link to poverty and good policy
- PRSP provides a framework – orientation towards social service spending
- Emphasis on participation and ownership by developing countries
- Commitment to increase aid volume – 0.7%
- Momentum for aid effectiveness
- Budgetary support

The Monterrey consensus involved 3 key agreements.

- a) that recipient countries recognize and take up their responsibilities for good governance and the establishment of development priorities in exchange for increased aid volume and quality and new policies on open trade;
- b) commitment to achieve the MDGs required recipient countries to prepare plans with set monitoring targets and costs to attain these, against donors countries agreement to fund these.
- © build a new partnership between donors and recipients where donors would support democratic, consultative processes for development. This was based on a recognition that conditionality did not work and that homegrown policy and adequate institutions directed to pro-poor goals would be a more effective way to deliver results on poverty.

⁶ An Aid/Debt trade-off the best option; Opa Kapijimpanga, AFRODAD (2000)

MDGs:

Jury is still out on MDGs and to what extent these would bring about lasting change for the poor in the developing countries. Largely, OECD countries (including most OECD INGOs) have taken the view that the Monterrey consensus and the PRSP provide a framework that will make economic growth and poverty reduction go hand in hand in the developing countries. However, there is growing scepticism in the developing countries as to what these can achieve for their economic and social development. While some (an increasing number of 'new' civil society and policy groups) have been participating in the process, a larger group has been questioning the basis, the rationale and the implementation of the process. They argue that poverty reduction is a smokescreen to continue with the BWIs' agenda of structural adjustment and liberalisation.

The Reality of Aid Report (2002) argues that broadening the scope and depth of donor conditionalities and tied aid "believe recent rhetoric favouring developing country 'ownership' of policies and strategies for reducing poverty". Based on evidences submitted by 35 NGOs around the world, the report underlines the inseparability of aid volume from the need for institutional reform of the global aid and trade system - who control the systems determine what agenda is pursued and who benefits. *Without democratisation of the global institutional processes which give space to the developing countries' governments and civil society to be equal partners, poverty reduction strategies will continue to be another guise for conditionality and imposition of rich countries' agenda on the poor.*

As the Reality of Aid report asserts, if the entire aid-trade-financial system is not restructured, all the debates about aid and poverty will be "no more than an attempt to retool" the current aid-trade-debt regime based on highly unequal power relationships, under the garb of ownership and effectiveness, to serve the same ends as it has in the past.

If the multilateral and bilateral institutions are serious about their rhetoric, they need to put money where their mouth is.

To this extent, there is a growing disagreement between Northern-based INGOs and CSOs on what Monterrey consensus can achieve. Many southern NGOs believe that their Northern-based partners (INGOs, donors) have pushed them into participating in the PRSP and post-Monterrey process reflecting the existence of same dependency relationship in the NNGO-SNGO equation that characterises the official aid system. As more evidence comes in on the debates listed above - NGOs are in a position to have to decide when to leap, from being a supporter of the overall process and therefore trying to

put their efforts into ensuring that implementation goes as planned, or to jump across the divide and start to campaign against it. In some ways this is difficult for them to do. Firstly they have lost some of their political space to do so. Also many of them are funded by bi-laterals to support this process in recipient countries.

Debates on PRSP and Conditionality:

Under the HIPC initiative which is a framework for debt relief and special support for the most indebted countries (42 countries now), one of the conditions is that each country develops a PRSP. PRSPs are comprehensive frameworks and include a country's entire economy, including both private and public sectors, the need to develop public administration institutions, public finance management functions and their competencies etc., in addition to targeted poverty reduction form the core focus of the PRSPs

a) Theoretically, the PPA and PRSP processes could provide the right space and dynamics for genuinely participatory dialogue, diagnosis, strategy development and planning of anti-poverty programmes, involving all key stakeholders. However, evidence is now mounting that this has not been the case. A major criticism regarding PRSPs is that the main focus is still on market driven economic growth as key to poverty alleviation, with scant attention paid to both social and environmental impacts. Export diversification (as opposed to increasing export production) or food security as valuable development goals are mostly neglected⁷. Most PRSPs count on export-oriented agriculture to generate foreign exchange needed to service developing countries' debt burden. *A UNCTAD report⁸ notes that fundamentally the poverty reduction strategies are based on continuation of the liberalisation and structural adjustment agenda which the IFIs have been pursuing since the 1980s.*

Given the limited capacity of national governments in many countries, PRSPs are often 'written up' by WB/IMF staff; no wonder therefore that all the PRSPs effectively reflect official IMF and WB neo-liberal policy recommendations.

The following evidences gleaned from a cross section of researches and field experiences paint a grim picture of how the PRSP is actually being implemented.

- The participatory poverty assessments have generated more involvement and a greater awareness of the impact of the programmes on poverty. However, there is concern being voiced in many developing

⁷ The WDR 2003: A Strenuous Tale of Missed Opportunities; Liane Schalatek and Barbara Unmussig, Heinrich Ball Foundation (2002).

⁸ "Escaping the Poverty Trap: the Least Developed Countries Report", United nations Conference on Trade and Development, 2002.

countries that macroeconomic frameworks are left outside the purview of consultation on PPAs, and this is a cause for frustration⁹. ActionAid research has shown that civil society organisations and parliamentarians are still unable to discuss, debate or put forward alternative macroeconomic policies in the context of discussion on PRSPs¹⁰.

- Concerns are being voiced that new forms of programme support through sector programme and PRSPs have contributed to strong centralisation in preparatory work and decision-making process¹¹. At a central level, participation and discussion have been limited to government ministers and agencies, with parliamentary institutions having very little say in their preparation. There is a strong feeling coming from the south that the PRSP process which brought everyone together to a common point has been perhaps hopelessly compromised to an extent that civil society groups and political parties have been driven to feel that the costs of engagement in the process are too high.
- © Oxfam, based on its involvement in over 30 countries in PRSP process, notes that despite the rhetoric on PRSPs being country-owned and participatory, the process is managed in a way that is hardly participatory. “Consultation is a more appropriate description than ‘participation’ in almost all cases”, reports Oxfam¹².
- The same Oxfam report, giving examples from Honduras, Ghana, and Georgia also notes the unilateral way the World Bank and IMF have imposed their will on the governments. “On trade, conditions forcing countries to open up their markets have continued under PRSP, and ‘capacity building’ provided by the World Bank further promotes the agenda of openness as an end in itself, rather than careful analysis of the kind of trade policy that is best for poverty reduction. In Ghana and Georgia, tariffs agreed by parliament were later removed in response to pressure from the IMF and Bank¹³”.
- The PRSPs have been poor in taking equity considerations into account¹⁴. In Latin America alone, at the end of 1990s, some 15 million more people were living below the \$1 a day poverty line than in 1987. The reason was that the policy of liberalisation further concentrated economic inequalities. Countries with low levels of income inequality can expect to register far higher rates of poverty reduction than highly

⁹ Globalization and its Discontents (2002). Joseph Stiglitz

¹⁰ Arrested Participation: the failure of PRSP Process; Rick Rowden, ActonAid USA (December 2003)

¹¹ Programme Support and Public Finance Management, SIDAstudies No. 6: Ulrika Broback and Stefan Sjolander (SIDA, 2003).

¹² From ‘Donorship’ to Ownership? Oxfam Briefing Paper, January 2004.

¹³ *Ibid.*

¹⁴ Making Globalisation work for the Poor, Kevin Watkins, Oxfam (2002).

unequal countries. What really matters is that growth-oriented policies without corresponding emphasis on equity considerations ranging from land redistribution and improved access to credit, education and health care for the poorest, cannot succeed.

Aid, Trade and Debt Nexus - Time to stop the reverse flow:

The stock and flows of are not merely governed by aid and debt, but are to a much greater measure by other inward flows such as private capital flows, remittances and trade. Architecture of aid cannot be looked at in isolation from trade and debt issues. The link between aid and trade is now well established. It is now widely accepted that if export earnings are high, sufficient investment goods can be imported and any domestic savings deficit can be alleviated. Trade therefore has a direct bearing on the aid and development strategy of a country.

The main question as outlines in the Monterrey agreement is the degree to which trade policy is coherent with Aid policy – i.e. is the impact of trade likely to compromise poverty alleviation goals. The key issues for debate are therefore centred around the terms of trade and the impact that these will have on the poor. NGOs and Southern governments have called for coherence in the policies on aid and trade on the grounds that there is no point in poverty alleviation measures that are directed towards poverty reduction, while simultaneously trade and investment measures only do the opposite.

Trade has not benefited most of the low income countries or the poor within the trading countries because of a variety of factors namely, unfavourable terms of trade and low relative prices of developing country exports, protectionism within the developed countries which discriminate against developing country exports, the world trade regime under the aegis of WTO being heavily controlled by the western business interests, heavily subsidised farm sector exports in the Western Europe and America which goes against the developing countries' prospects for exports, etc.

At the behest of the BWIs, trade liberalisation, the removal of restriction on imports¹⁵ and reduction of discrimination against exports has become a standard policy reform for most developing countries. Whether as part of structural adjustment or independently of it, most countries have embarked on a degree of such liberalisation. The potential benefits of trade liberalisation have escaped many countries, particularly in the sub-Saharan Africa which

¹⁵ In theory of trade liberalisation, 'imports' mean import of investment goods. However in practice, this also means removal of all restrictions on imports, for example tariffs on imports of Gucci fashion wear and California Wine.

stand to be losers in the trade game, while many countries in Asia and Latin America have made some gains¹⁶.

The question then arises how can aid be restructured to compensate for the losses sub-Saharan Africa countries and small island states in particular are likely to suffer because of the inequitable trade environment.

It has been widely documented how the farm subsidies in US, Europe and Japan have devastated the economies of many African countries they assist with rural development programmes. According to the UNDP development report¹⁷, crop subsidies cost developing countries between \$125 billion and \$ 310 billion in lost sale and lower world prices. The 2003 World Development Report notes that unrestricted access to developed country markets in textiles and clothing alone could yield \$9 billion a year for the developing countries, and access to agricultural markets another \$ 11.6 billion a year.¹⁸

The Reality of Aid Report (2002) criticises the global institutions for their double standards which force southern governments to privatise and liberalise, while the OECD restrictive practices, tariff and non-tariff barriers cost the developing countries over \$ 160 billion a year.

The failure at Cancun over developing country demands for the end of Northern farm subsidies, better market access and reform of inequitable trade policies would have an impact on achievement of MDGs.

Following the failure of Cancun many OECD countries are now pushing through, in bi-lateral and regional agreements with developing countries, the same liberalised policies on trade and investment with individual countries to ensure unencumbered investment opportunities are made available to the former.

The most frightening part of this scenario is that the same institutions that have a role to play in giving loans and grants as part of aid (for example the IMF/WB and IADB) are heavily influenced by the OECD governments that are trying to negotiate these bi-lateral and regional agreements on trade and investment.

Debt:

The debt burden of the poorest and heavily indebted countries has a direct bearing on the domestic development policy and public expenditure. The developing countries as a whole have been contributing \$190.000 a minute to

¹⁶ "Foreign aid in the emerging global trade environment", Oliver Morrissey. Foreign Aid and Development, Routledge (2000).

¹⁷ "Africa pushes for better Aid Quality". www.nepad.org

¹⁸ Pathways to Sustainable future, World Development Report 2003, the World Bank.

debt service, while the poorest of the poor in Sub-Saharan Africa have paid back an average of \$20.000 in interest payments every minute. 'You can build a good many schools and clinics and water-mains and roads for \$20.000 a minute', says the noted activist, Susan George¹⁹.

The HIPC initiative²⁰ has not led to any significant change in the debt landscape. In the first four years of the initiative, only 2 (Bolivia and Uganda) of the 41 HIPC countries had reached the last stage of approval, and five others were in the first stage of consideration. By the end of 2001, only 24 countries had reached the decision point with regard to debt relief. In a study on effectiveness of debt relief conducted by the Dutch Government²¹, it was found that even after five years of so-called debt relief, the debt stock has reduced only by 1-4 per cent annually for 6 HIPC countries (Nicaragua, Bolivia, Mozambique, Tanzania, Uganda, Zambia) studied. The study found that instead of any permanent relief, the stocks of debt have remained largely the same or have increased. The study concludes that debt is not sustainable for any country.

Several debates have been raised by the debt question.

- a) Intention - Write off's or restructuring?: Should debt be completely written off, therefore giving seriously indebted nations a clean slate from which to start, rather than continue with the same re-structuring which in effect does not reduce the debt stock.
- b) Accountability and Moral Hazard: The IMF funds are replenished every 3 years by the major OECD donors. This gives IMF the ability to lend to recipient countries, sometimes not very responsibly. Where is the accountability?
- c) Is debt relief actually having any impact on poverty: Debt relief is generally financed from the aid budget of the donor, which means that for the recipient country it has a negative effect on the overall budget.
- d) Is debt relief distorting the aid giving in favour of countries that are not in debt: Another serious complication of the aid vs. debt debate is that it has the effect of distorting the aid, focussing more on countries that

¹⁹ Cooperation - A third Way with a third force, Susan George, Ottawa, November 1999 (www.tni.org)

²⁰ Highly Indebted Poor Countries initiative: started in 1996, whereby the rich countries and the IFIs committed themselves to provide partial debt cancellation and debt restructuring to ensure 'lasting exit' from unsustainable debt burdens for 42 countries. In 1999, the HIPC initiative was 'enhanced' to deliver 'permanent exit' from debt rescheduling and to release resources for higher social spending in debtor countries.

²¹ Results of International Debt Relief (2003), IOB Evaluation, Netherlands Ministry of Foreign Affairs, NR 292

do not manage their aid repayments and against those that have managed to make repayments.

- e) Should debts be replaced by grants for some countries: should the giving of loans be stopped to countries where debt has been unsustainable - and should it only be paid as grants?
- f) Is HIPC just adding more conditionalities when there is a case to remove them all.

As reported by the UN Secretary General to the General Assembly in 2002, the developing countries transferred almost \$200 billion more to the developed world in debt service payments, profit remittances than they received from sources including aid, private investment and debt relief. Even if the developed countries met their ODA obligations of 0.7% of GNP, this would not be anywhere near the \$200 billion worth of resource transfer from developing to the developed world.

The point is that 0.7% is a secondary issue. There are much more fundamental issues in the aid architecture that need to be challenged by the civil society than just asking for the magic 0.7 per cent.

The debates around Monterrey, as well as those around the trade agreements and debt relief point to the importance of the institutional arrangements for both arbitrating between these competing perspectives and in taking the system forward.

Overview of the aid system - current trends and the aid architecture:

There are different perspectives on what the aid debates should be about. Some of the key starting points are as below:

Aid and poverty reduction:

1. In the past, economic growth and macroeconomic stability were considered as overriding in the BWIs²² approach to developing countries' economy. A clear link to poverty had always been lacking in the approach. In the late 1990s, following several impact studies which pointed out the inadequacy of progress made on poverty and related suffering, serious questions began to be raised as to the effectiveness of aid and the policy interventions by international donors in developing countries. The key for aid to work is a clear link to poverty and good

²² Bretton Woods Institutions, namely, the World Bank, International Monetary Fund.

- policy environment as was established at Monterrey in March 2002. The PRSP and PPAs are attempts to correct this serious flaw.
2. All aid generally come as concessional²³ loans. Traditionally aid came in the form of isolated capital-intensive projects which often reflected donors' preferences. The donor allocations were kept outside the government budgets, which affected the recipient government's ability to make rational and strategic choices with regard to development policy or public expenditure.
 3. A most significant progress in recent years worth noting is that some of the major donor agencies are moving towards programme support approach. The programme support approach is not aimed at financing a specific project, but at supporting the implementation of a wide-ranging policy/expenditure programme which incorporate a clear poverty focus, often for a sector or towards the overall budget of the government, laid down by a partner country's government. The funding becomes integral to the country's budget and development framework, and therefore requires new forms of cooperation. Despite this positive development on one side, *some bi-lateral donors are still hesitant in the provision of direct budget support preferring instead to promote their own political priorities*. This is notably the case for major donors like France, United States and Japan which account for nearly half of global ODA²⁴.

Decreasing Aid Volume:

4. Currently global ODA per annum stands at \$56.9 billion (2001). However this figure (0.22%) is far behind the 0.7% of GNP 'aid' commitment that donors had promised to pledge towards development. Current research shows that ODA or 'aid' will have to double to about \$115 billion²⁵ per annum in order to realise the MDGs.
5. This dramatic increase, however, going by current and past trends, looks ambitious. The 1990s saw a decline in net disbursement of ODA as a ratio of donor GNP from 0.38 % in 1982 to 0.22 % in 1997. Since 1992 in particular, net aid disbursements from OECD have declined from \$62 billion to \$ 57 billion in 2001. This was partly due to the then widely held belief that operation of market will take care of everything and partly due to mounting evidence that aid was not making a significant impact on poverty, and is only causing dependency.
6. At the moment aid flows to LICs are nearly the lowest for over a decade, with aid per capita in 2000 being \$19 compared to \$33 in 1990.

²³ Some bilaterals are now moving to more grant-based aid; DfID, the Dutch government and SIDA are some of the leading agencies in this regard.

²⁴ Debt and Millennium Development Goals, Working Paper by CAFOD, Eurodad, Christian Aid, Oxfam and Jubilee Research (September 2003).

²⁵ This relates to development aid only. Another \$ 9 billion is expected to be required every year for emergency aid.

Even now, almost half of the ODA goes to Middle Income Countries²⁶, while aid flows to low income countries have only increased at about 1.5 % per annum between 1998 and 2001.

7. The quantity of aid intended for disaster relief and emergency aid²⁷ has more than trebled in the last decade (before the occupation of Afghanistan and Iraq, it was \$6 billion per year). This has led many NGOs to examine their portfolio of development and relief work.
8. Though aid is also provided through civil society intermediaries (NGOs), bilateral agencies and multilateral institutions are responsible for the bulk of ODA. *In 2001 multilateral institutions²⁸ were responsible for roughly 33% or \$23 billion approximately of all ODA.* The major bilateral donors together disburse about 64% of the aid. Around 3% of ODA is disbursed through NGOs of which the largest are CARE, OXFAM, Save the Children Fund and the Red Cross/Red Crescent Society.

Doubts over effectiveness of aid:

9. In the context of Africa, an AFRODAD research²⁹ notes that aid has benefited only about 10% of the population who are mostly the local elites. In countries such as Tanzania and Zambia, says AFRODAD, the failure of aid to address developmental problems has led to calls for more aid!
10. *Worldwide 54 countries are poorer now than they were a decade ago³⁰.* A series of impact assessments by the aid agencies in early 1990s also concluded that aid was only having a limited impact on reducing poverty and suffering – although at times aid was extremely successful, most of the times, there were extreme failures. *In 1990/91, on an average, an additional \$1 million worth of aid pulled just over 100 people from poverty. However, the comparable figure for 1999/2000 was 284, signifying a growing 'relative effectiveness' of aid.*
11. Success stories of aid are generally to be found in the realm of humanitarian action or in situations of severe suffering where lack of aid would have made things far worse. The success rate is for developmental programme however is positive only if one absolves aid of any responsibility for consequences on people and environment. Myriad infrastructure development (roads, power sector, etc) and

²⁶ This is likely to continue and intensify further, with the expansion of the EU to include ten new MIC members who are likely to continue to be recipients of aid for the foreseeable future.

²⁷ Humanitarian Aid is not included in this discussion as it is governed by a separate process within each donor country, although it may be argued that major allocation to humanitarian aid (like the Bush Administration's allocations for Iraq and Afghanistan) would affect the development aid, although the governments do not usually admit it

²⁸ The major multilateral institutions are the World Bank, the IMF, the Asian Development Bank, the African Development Bank, the Inter-American Development Bank, the Caribbean Development Bank and the UN.

²⁹ *Ibid*

³⁰ Shriti Vadera, Council of Advisers, HM Treasury, speaking at The Future of Aid seminar series, ODI, 29 January 2004.

'prestige projects' vie for attention and awe in most aid receiving countries, courtesy of the international aid pushers. The cumulative debt burden which the developing countries are now reeling from can be traced to these mega-projects and the investment that went into propping up regimes like those of Marcos, Moi and Mobuto to mention only a few.

Some key debates

1. Does Bank-Fund Agenda undermine national policy-making?:

A central question being asked in the past few years is whether aid architecture is interfering with the ability of country governments to decide on their priorities? This question is increasingly being asked as despite the importance given to country ownership of the PRSPs, it is clear from several studies that in Africa, Asia and Latin America that this has not happened. In Pakistan for example, elements across civil society formally got together to reject the 'structure, content and process' of the PRSP³¹. It is suggested by many southern NGOs that countries were in fact pressurized into taking on reform agendas which did not derive from domestic political and social factors. As a result there was no commitment or capacity to go through with these reforms. Instead they have in several cases led to tussles between civil society groups, national governments and national parliaments (Global south).

2. Is the aid architecture just overgrown, too expensive and unwieldy ?

Both the World Bank and the IMF have adopted multiple and conflicting roles. The Bank for example has appropriated for itself multiple roles a) as a bank, b) to advance the interests of its shareholders – largely OECD countries, c) trying to change southern countries policies and beliefs, and d) as an agent for the net transfer from OECD to developing countries. Not to be left far behind, the IMF plays multiple roles as arbiter of debt, or trade and investment liberalisation when these are not part of its central mandate or core expertise. In the case of debt, or conditionality there are multiple institutions, the WB, the IMF, and interested donors who need to be consulted to make a decision. Yet there is no overall body that has an overview of the conditions that multiple donors may have made, nor whether there was any consistency between them.

The international aid system suffers from multiplicity of actors – there are some 75 agencies (40 bi-lateral, 20 multi-lateral and about 15 UN agencies) – through which bulk of the ODA aid of \$ 58 billion were disbursed in 2002³².

³¹ Source: Focus on the Global South

³² Andrew Rogerson, ODI (January 2004): Presentation at The Future of Aid seminar series, ODI, 14 January 2004.

Moreover the relationship between various institutions is unclear. Although there is an accepted need for multi-lateralism, there still is a large amount of bilateral aid (in countries) such as Mozambique as high as 80%, where donors continue to follow their own agendas. Within all this the ideas of coherence and coordination are extremely difficult. New forms of tied aid was posing serious problem for the aid system, and the future of multi-lateralism was under threat³³. Despite Monterrey consensus, not much has changed on the ground in terms of donor practices and procedures. The US government for example have in the past two years come up with new funds like the Millennium Challenge Account, the HIV/AIDS Fund which, though are welcome in terms of the extra funds being committed, are causing obstacles in the way of coming up with a globally coherent architecture.

There is a general agreement that both in the case of donors, as well as in the case of the multilateral institutions there should be a fundamental remodelling of the system to make it more accountable, transparent democratic and results oriented.

3. Lack of Accountability in the aid system:

The call for greater accountability is universal both from the donor countries who have to justify expenditure to their public and from the South because the people bear the brunt of the policies and programmes. At present accountability exists in a narrow instrumental sense - there are budget audits, parliamentary committees and the peer-review process.

Currently there is no mechanism for joint assessment of aid programmes. While the World Bank, IMF and other donors keep themselves busy commenting on how the aid receiving governments are doing, there is no space for reviewing by the governments and civil society how the international aid agencies are performing in relation to their professed commitment to the principles behind MDGs. There is a general agreement that both in the case of donors, as well as in the case of the multilateral institutions there should be a fundamental remodelling of the system to make it more accountable, transparent democratic and results oriented.

This is becoming vitally important now, more than ever before, that donor governments take responsibility for bad policy advice, failed assessments and faulty programmes. Otherwise, it is more likely that continued failure of PRSPs in alleviating poverty will be attributed to weak capacity, poor governance and entrenched structural weaknesses in recipient countries.

4. 'Selectivity' in aid allocations:

³³ Andrew Rogerson, ODI, The Future of Aid Seminar, 14 January, 2004, ODI, London

The criterion of a 'good policy' context is becoming popular with aid agencies for aid allocations as it is argued that good policy environment leads to higher growth rates which in turn lead to alleviating poverty and improving mortality rates³⁴. In 2002, President Bush announced the setting up of Millennium Challenge Account which would increase the US development assistance by \$5 billion annually by the year 2006 for countries "ruling justly, investing in their people and encouraging economic freedom". The announcement also emphasised that foreign assistance is governed by security imperatives of the US. Through the MCA, US will focus on strategically important states, and not necessarily the poorest nations or the failed states³⁵. While 'good policy' contexts are certainly a pre-requisite for poverty reduction, civil society groups need to challenge the emerging institutional consensus on 'selectivity' if it runs the likely danger of 'forgetting' the poor in the non-good policy contexts.

5. A new Global environment

Perhaps the biggest potential change to the aid environment comes not from specific issues to do with the aid architecture, as it stands at the moment, but with the general shift in global concerns. With the September 11th bombings, Afghanistan and Iraq, as illustrative examples, a new constellation of concerns are likely to influence the new aid architecture. The 4 key issues that form this are - security, foreign policy, terrorism and aid. It is too early to say how poverty focus will remain as an overall commitment in future aid decisions, or whether a new cold war type, foreign policy led aid will develop, but new initiatives such as the MCA suggest that a selectivity in aid provision is definitely on the cards. Further issues that might influence this are the increasing use of aid as a preventative instrument for migration, and the use of aid in as an instrument to deal with international public goods.

Issues, Challenges and Agenda for Action:

In this section, we summarise the important debates and questions for advocacy as these are emerging from various platforms globally.

Monterrey Consensus notes that there is need to harmonise the donor institutions' operational procedures so as to reduce transaction costs, and to enhance efforts towards untying of aid³⁶. Donor commitments made at the 2000 Millennium summit and the 2002 Monterrey conference include:

³⁴ Collier, P., Dollar, D. (1999). Aid Allocation and Poverty Reduction, Policy Research Working Papers, World Bank.

³⁵ "Emerging Trends – An InterAction Policy Paper". InterAction (November, 2003).

³⁶ Monterrey Consensus: Outcome of the International conference on Financing for Development (2002)

- Increasing the amount of ODA available for achieving the MDGs;
- Achieving better alignment of donor priorities with national development strategies;
- Reducing duplication and reporting requirements;
- Improving predictability and timeliness and aid disbursements;
- Strengthening ownership and untying of aid.

While all the above five are critical, we would argue that if the international donors focused on the first and the last, the rest will fall in place as ‘ownership and untying’ are at the heart of the other three. The coming round of debates, deliberations and negotiations on future aid architecture should test the seriousness of international donors about MDGs. Civil society has to play a crucial role in setting and pushing the agenda of aid based on a more equal and democratic relationship involving all key stakeholders, namely, the civic institutions, the governments and parliamentary institutions in the developing countries, international aid and financial institutions and OECD/DAC.

This is a challenging task, but there are no easy options if one is serious about MDGs and all the rhetoric about participation, ownership and democratisation.

The following paragraphs outline some of the big issues that need to be grappled with, as well as the advocacy lines that are being developed by various players.

1. ‘Unconditional’³⁷ cancellation of the bi-lateral debt of the poorest countries is absolutely vital. An Oxfam report³⁸ observes that even under the improved HIPC Initiative, many countries like Tanzania will remain holding an unsustainable amount of debt. Two thirds of countries receiving debt relief still spend more on debt servicing payments than on health and half spend more on debt than primary education and health combined, says the Oxfam report. Debt cancellation, particularly in LICs will go a long way in spurring growth through an increase in the quality and quantity of investments, as empirical evidence from IMF study³⁹ suggests.
2. *The international aid agencies estimate that aid budget needs to increase by at least \$50 billion per year from current level. However, this will only have any meaning if accompanied by total debt cancellation of the poorest countries (LICs). As without this, the so-called aid goes back to the donor*

³⁷ We qualify this in paragraph 4 below.

³⁸ Oxfam International, “Where’s the Money? G8 Promises, G8 Failures”. Oxfam International Briefing paper, July 2001.

³⁹ “External Debt and Growth”, IMF Working Paper (April 2002): Catherine Pattillo, Helene Poirson, and Luca Ricci.

countries in the form of debt servicing and by way of tied aid which stimulates its own industry and technical assistance sector, with developing countries remaining in perpetual debt, and forced to adapt the macroeconomic systems to the biddings of the donor-governments (via the BWIs). 2015 is only about another ten years from now, and if the donors are serious about the MDGs, the time to act on debt is *now*.

3. As advocated by the *Reality*⁴⁰ project, rather than impose externally motivated PRSPs, donors must give unconditional support to developing country governments *committed* to developing, with full participation by civil society, their own national development strategies and poverty reduction plans. The Reality of Aid Report⁴¹ cites the case of Uganda which is one of the few countries to have produced a home-grown poverty reduction strategy, without being lectured, tutored and dictated to by the BWIs. "Other countries have undertaken domestic processes often with the support of UNDP, to pursue medium-term development goals. Whatever their flaws in terms of broad-based participation, these efforts strengthen accountability of developing country governments to their citizens. Their motivation is rooted in domestic political processes and popular pressures. They do not have stringent external financing conditionality hanging over them⁴²".
4. Delink all forms of aid and debt cancellations for the poorest countries from all types of conditions that impinge on the macroeconomic framework a country follows. *However, conditionality related to strengthening of civil society, accountability and good governance have the potential to bring about lasting changes in the developing countries, and hence must be continued, especially in countries where the governments are not proactive on these.* It must be noted here that some bi-laterals like DfID, SIDA, and Government of Netherlands, for example, have been more successful in building institutional capacities of national governments in these areas and in bringing about a greater coherence of their country aid strategies with the recipient country's own needs than the IFIs and other bi-laterals.
5. The PRSP process is a major improvement on past practices. In many developing countries where the governments have traditionally been averse to having the civil society around the discussion table, now they are having to slowly learn to engage with the civil society. However, PRSP does not constitute a development strategy for a country, which needs to take into account all aspects of the macroeconomic framework, namely, fiscal, financial and tax issues, inter-sectoral terms

⁴⁰ *Ibid*

⁴¹ *Ibid..*

⁴² *Ibid..*

of trade, distributional aspects, environmental issues, etc. Unfortunately, however, the hype built over PRSP has been such that a major part of civil society has been drawn to believe that the PRSP route holds the promise of leading the developing countries to their aspired goals. It also must be remembered here that in a way PRSP process takes a step backwards for many civil society institutions who focus on a rights-based development approach as the former, *in practice*, has a very limited remit which is to provide a minimum level of basic needs for the poor. It is vital that civil society has a realistic expectation of the PRSP process, and continuously keep pushing the boundaries of it while engaging with it in serious earnest to *force* it to deliver what it is purported to achieve, namely 'ownership' and accountability (by both the recipient governments and donor institutions).

6. Lessons from NEPAD/Regional forums: The Reality of Aid Report concludes that **"Unless there is major reform in international governance, and a delinking of aid from vested interest and conditionality, aid will continue to be seen as increasingly irrelevant..."**. In this context, the New Initiative for Partnership in African Development is a step in the right direction as it is attempting to take 'ownership' of the region's development, and needs to be supported. It is not clear yet how it will deal with pressures from donor bureaucracy, especially of the IMF/World Bank type when the later finds hard to impose its own will on developing country governments. It is time for the NGOs and civil society to engage with initiatives like NEPAD and strengthen them. At Cancun, we saw the emergence of the China-India-Brazil caucus which could be the first signs of emergence of regional and multi-regional leadership to take ownership and seriously challenge the current system heavily loaded against the developing countries. *It is however true that the international civil society movement has not yet begun to actively engage with these initiatives where the developing world is trying to take 'ownership'*. Simultaneously work needs to continue to bring about greater openness, transparency and democratisation in the functioning of the governments in developing countries.
7. Most programme support agreements are for one-year period. However, the PRSP and budget framework approach require a much longer-term approach. A country cannot be expected to come up with long-term health care strategies if it does not know where it is going to get the funds from in 12 months' time. Some bi-laterals like SIDA, Netherlands, DFID are moving towards 2-3 year budget support. But others are still working on annual budget commitments.

8. Finally, long-term agenda for the civil society has to focus on reform of the global power relationships. While the CSOs work with local governments in developing countries to strengthen democratic processes in all spheres of life, the increasing authoritarianism and unilateralism in international forums and institutions must be fought vehemently. *Without addressing the lop-sided nature international governance and decision-making structures, any attempt by civil society to bring about cosmetic changes in some elements of the current aid architecture will only lead to co-option into a process which does not have much relevance for sustainable development in poor countries.*