



Aid effectiveness debate in Busan

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The Fourth High Level Forum (HLF) on Aid Effectiveness, which took place from 29 November to 1 December 2011 in Busan, South Korea, came out with a “New Deal for Engagement in Fragile States”—a somewhat novel document of aid architecture that provides fragile states a greater role in their destiny.

Those who argue that there was a breakthrough in Busan call the New Deal revolutionary and that it will transform the relationship between donor and recipient countries. They argue that the New Deal places the fragile states for the first time at the helm of their development goals. They also argue that the New Deal articu-

lates the vision and principles of the Millennium Declaration and the Monrovia Roadmap—a 2011 document that outlines five peace-building and state-building objectives and several high-level commitments to include increasing citizens’ access to justice, managing revenues, and building transparency. Furthermore, they argue that the New Deal acknowledges the need of fragile states for special assistance in developing strong government institutions.

The Busan outcome also focuses on new development challenges and this is highlighted in the Busan text under the theme “From Effective Aid to Cooperation for Effective Development”

where there are four subsections, namely, South-South and triangular cooperation for sustainable development, private sector and development, combating corruption and illicit flows, and climate change finance.

In order to assess whether there was a breakthrough in Busan, it is essential to examine the key objectives of the Fourth HLF. They were: i) to look at experiences in implementing the Paris Declaration and the Accra Agenda for Action to highlight good practices, identify lessons that could be learned and highlight where more work was needed; ii) to assess new development challenges—evolving landscape of actors and partnerships—

to enhance aid's contribution to broad and inclusive development goals; and iii) to chart the way forward in the form of a new agenda for development and aid.

In this context, it is important to comprehend the evolution of the Paris Declaration and the Accra Agenda for Action (AAA) in the aid effectiveness debate, which is directly related to the first objective.

Aid effectiveness debate

Over the last few decades, the efficacy of foreign aid as a developmental tool has been mixed. The literature suggests several factors that influence the efficacy of aid, including the quality of domestic policies, types of conditionalities, quality of domestic institutions, and rent seeking. While some studies have found evidence of aid effectiveness under certain conditions such as good economic policies, others have found evidence to the contrary. A 2006 survey shows that on average, foreign aid is effective in spurring economic growth in recipient countries.¹ Overall, the message for policy makers is that aid is necessary, particularly in the context of achieving the Millennium Development Goals (MDGs), but that there is a need for reform in the practice of aid delivery.

Accordingly, since the MDGs were announced in 2000, there have been several multilateral initiatives

that have focused on the issue of both increasing the magnitude and quality of aid. In 2002, global leaders met in Monterrey, Mexico to discuss the modalities of enhancing finance for development. To quote from the Monterrey Consensus:

"We recognize that a substantial increase in ODA [Overseas Development Assistance] and other resources will be required if developing countries are to achieve the internationally agreed development goals and objectives, including those contained in the Millennium Declaration. To build support for ODA, we will cooperate to further improve policies and development strategies, both nationally and internationally, to enhance aid effectiveness."

The Monterrey meeting was followed by the First HLF in Rome in 2003 where heads of donor agencies, both multilateral and bilateral, met with representatives of donor and partner countries to discuss measures to enhance harmonization of aid, particularly by working within partner-country systems. The Rome HLF was followed up by the Second HLF in Paris in 2005, which culminated in the Paris Declaration (PD) on Aid Effectiveness. The PD was signed by 91 countries, 26 international organizations (mainly donor agencies) and 14 civil society organizations. The formulation of the PD grew out of the need to understand why aid was not

producing expected results, and to step up efforts to meet the ambitious targets set by the MDGs. The PD offers a blueprint for effective aid that maximizes impact from investments, synchronizes donor efforts and integrates the full spectrum of development challenges. Today, it is the rallying point for international consensus on aid effectiveness and many countries adhere to it.

The PD is founded on five core principles born out of decades of experience on what works for development and what does not. These principles have gained support across the development community, changing aid practices for the better. It is now the norm for aid recipients to forge their own national development strategies with their parliament and electorates (ownership); for donors to support these strategies (alignment) and work to streamline their efforts in-country (harmonization); for development policies to be directed at achieving clear goals and the progress towards these goals to be monitored (managing for development results); and for donors and recipients to be jointly responsible for achieving these goals (mutual accountability).

In 2008, to step up implementation of the PD and build countries' capacity to manage their own future, an unprecedented alliance of developing countries, Development Assistance



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Committee (DAC) donors, civil society organizations, emerging economies, the United Nations and multilateral institutions, and global funds agreed on the AAA at the Third HLF in Accra. The AAA proposes improvements in three main areas: i) ownership: developing countries participate in policy formulation, take the lead in aid coordination, and have aid delivered through their own country systems; ii) inclusive partnerships: all partners—DAC donors and developing countries, other donors, foundations and civil society—participate as full partners; and iii) delivering results: aid is squarely focused on producing real and measurable impact on people's lives.

In other words, the key principles agreed upon in Accra relate to enhancing predictability of aid, ownership (partner countries engaging more with parliaments and civil society), use of country systems in aid delivery, untying aid, country-led division of labour among donors to avoid aid fragmentation, enhanced use of PD principles, including South-South partnerships, and increased transparency in reviewing aid.

In 2010, three new agreements grounded in the PD to improve the impact of development cooperation came into operation. The Bogota Statement commits partners engaging in South-South cooperation to deepen the exchange of knowledge and mutual learning. The Dili Declaration proposes to counter conflict and fragility through country-led processes in peace-building and state-building. And the Istanbul principles were set to provide specific guidance for the development work and practice of civil society organizations.

A recent study by the Brookings Institution² shows that ownership, alignment, predictability and capacity development are key development outcomes. Countries must show strong leadership over their development programmes and be able to count on long-term support from their major partners. A well thought-out exit strategy from aid also emerges

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as an important feature of successful development model.

The PD has been criticized for not being able to address development goals of human rights, social justice and equity. The Reality of Aid³ argues, "PD springs from a technocratic depoliticized vision of development, with no accountability for intended beneficiaries. The power in aid relationships is still heavily weighted on the side of donors, and the Declaration does nothing to check this imbalance. The aid effectiveness being promoted remains essentially donor-centered."

Back to Busan

Critics, while acknowledging the positive outcome of Busan with regard to objectives (ii) and (iii), argue that the Busan outcome does little to improve aid effectiveness in developing countries as discussed in the past High-Level Forums, in particular in Paris and Accra.

Building on similar surveys undertaken in 2006 and 2008, a Survey on Monitoring the PD was conducted in 2010 in which 78 countries volunteered to participate. The results of the survey are sobering: Only one out of 13 targets established in 2010—coordinated technical cooperation (a measure of the extent to which donors coordinate their efforts to support countries' capacity development objectives)—has been met, albeit by a narrow margin. Donors were using developing-country systems more than in 2005, but not to the extent agreed in Paris.

Critics have also shown that aid is becoming increasingly fragmented, despite taking some initiatives to address this challenge. Emerging

economies like China, Russia and India, and foundations like the Bill Gates Foundation have gained importance in the aid landscape. Thus, the proliferation of aid channels and fragmentation of ODA are on the rise. This is particularly costly for fragile states and low-income countries with little capacity to manage multiple actors. Therefore, there is more urgency to consolidate funding mechanisms and make better use of multilateral channels to mitigate the impact of fragmented aid systems.

Furthermore, most donors have not yet met their long-standing pledge to provide 0.7 percent of their GDP as ODA. This aspect hardly received attention in Busan, perhaps due to economic distress that donor countries themselves are going through at present. These issues are vital and should have been addressed before embarking on a New Deal in Busan.

To conclude, it is clear that the aid effectiveness debate has a long way to go and Busan has only laid some building blocks, and just like we have the three 'A's from Accra, we now have three 'B's from Busan, i.e., the Busan Building Blocks (BBB). The BBB, together with the AAA, can now gradually shape the international aid architecture that is required to make aid more effective and meaningful for developing countries in the coming years. ■

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Notes

¹ McGillivray, M., M.S. Feeny, N. Hermes and R. Lensink. 2006. "Controversies over the impact of development aid: It works; it doesn't; it can, but that depends..." *Journal of International Development* 18 (7): 1031–1050.

² Kharas, H., K. Makino and W. Jung. 2011. *Catalyzing development: A new vision for aid*. Washington, D.C.: Brooking Press.

³ Reality of Aid. 2008. *The reality of aid: An independent review of poverty reduction and development assistance*. Philippines: IBON International (www.realityofaid.com).