

DAC and aid partnerships

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Outline

- n A long experience in donor coordination
- n The aid effectiveness imperative
- n Challenges ahead

Early milestones in Donor Coordination

- n Historical beginnings of aid : development actions of colonial powers in overseas territories – institutions for economic cooperation created after WWII – US (1947) Marshall Plan and (1949) “point four” programme.
- n 1960 : establishment of the Development Assistance Group (DAG) as a forum for consultations.
- n 1961 : Resolution on “Common Aid Effort” – DAG replaced by DAC, within OECD.
 - n At the time, US represents 40% of total ODA, France and the UK one third.
 - n Issue : equitable sharing of the aid effort; coordination of the common aid effort.
- n There is a “common” good aspect to international aid: it is in the collective interest to promote successful development across the world, both for economic and political reasons. Hence, the question of who contributes to that common goal and how is high on the agenda of donor discussions.

Why donor coordination ?

- n Initially, burden sharing issue
 - n Predominant share of the US, France, the UK
 - n Who does what to promote world economic cohesion?
 - n Measuring aid : information and collection of relevant statistics
 - n Formal definition of ODA (1969)
 - n ODA target in percentage of GNI
- n Additional issue : beggar-thy-neighbor policies
 - n Tied aid
 - n Use of export credits to win over developing countries' markets
 - n Influence
- n Substance :
 - n Understanding development and poverty reduction
 - n Understanding the requirements for "pro-poor" growth, sharing experiences, shaping consensus-based recommendations (role of DAC networks and working parties).

What objectives for donor coordination?

- n One natural objective: give sense to collective action : aid effectiveness
 - n Make sufficient resources available to developing countries
 - n Look for development results and impacts
 - n While preserving the diversity of donor motives
 - n How to maximize the development impact of ODA?
- n The volume question
 - n UN target (1969 Pearson Report “Partners in Development”, 1% of GNI for public and private flows, 0,7% for ODA)
- n How to assess aid effectiveness ?
 - n A long debate
 - n Aid effectiveness as a mutual accountability issue: donors and recipients have responsibilities and obligations.
 - n Emergence of shared principles: aid effectiveness as a results-oriented process.

Aid : tied or untied ?

- n Tied aid : procurements tied to donor countries or regions
 - n Formal or informal tying
- n Advantages :
 - n Balance of payments – early concern, but volumes are too low to really matter from a donor’s balance-of-payments perspective
 - n Political economy: jobs, export interests : tying acts as a disguised, indirect subsidy.
 - n Mobilizing public support by making aid impact more immediately visible and relating it with “national interests”.
- n Advantages of untying
 - n Less risk of beggar-thy-neighbor competition between donors : fair competition provides the best coordination device. Rules-based, multilateral world economy.
 - n Donor’s firm can respond to all international bids financed through any donor’s ODA. Not supported by distorsionary subsidies, they end up more competitive.
 - n Cheaper access by developing countries to imported goods and services (tied aid estimated to increase costs by 20-30%)

Steps towards untied aid

- n 1962 recommendations : call for “joint efforts to reverse the trend towards more tying of aid”. Unsuccessful attempt in 1969 to seek multilateral agreement on untying. However, broad adherence to the principle of untying.
- n Further attempt in 1974, distracted by the oil crisis.
- n 1986 : establishment of “good procurement practices”
- n New disciplines for tied aid and associated financing (Helsinki Package, on export credits) approved in 1991 and formally adopted in 1992.
- n 2001 DAC Recommendation to untie aid to the least developed countries
- n 2002: ODA to LDCs untied, except for food aid and technical assistance.
 - n Effort sharing, transparency, procedures for review and implementation, circulation of information.
- n 2005 Paris Declaration and 2008 Accra Agenda for Action : extend 2001 recommendation to non LDC HIPC, improve reporting, further untie aid “to maximum extent”, implement CSR.

New partnerships

- n Since the Millennium Declaration, the development objective has emerged as a collective endeavour, a partnership between developed and developing countries
 - n Adoption of the Millennium Development Goals (MDGs)
- n This has shaped the debate and actions around aid effectiveness
- n Milestones : Rome (2003), Marrakech (2004), Paris Declaration (2005); Accra Agenda for Action (2008)
- n Results : volumes have significantly (if not sufficiently) increased, new disciplines have been implemented.

Toward more effective partnerships

- n Paris declaration (2005)
 - n Ownership
 - n Alignment
 - n Harmonization
 - n Results
 - n Mutual accountability
- n Accra Agenda for Action (2008)
 - n Predictability of aid flows over a 3 to 5 year horizon
 - n Use of country systems (alignment)
 - n Results based conditionality : donors and developing countries will agree on limited set of mutually agreed conditions – no longer on ex ante conditions.
 - n Untying (to be further expanded)
- n Policy Coherence for Development
 - n An important, ongoing joint process.

Challenges ahead (1)

- n Principles are fine. Difficulties lie in implementation
 - n Ownership in poorly governed countries
 - n Weak capacity to plan ahead
 - n Who is expected to “own” ?
 - n What role for donors in guiding partners?
 - n Alignment
 - n Works if local procedures and systems are operating.
- n Mutual accountability : how to measure development results?

Challenges ahead (2)

- n Like in the early days, international aid is an instrument toward a collective good
 - n Successful development as an economic, political and global public good challenge
- n But the world has changed
 - n Some countries have successfully developed and also become net donors.
 - n The challenge of poverty remains daunting
- n The problem of collective action remains
 - n Who does what, how? How to be effective?

Challenges ahead (3)

- n Coordination among DAC members has taken a long time to mature. It has brought two major benefits :
 - n Clear individual commitment to collective action
 - n Shared concern on results-based actions and on aid effectiveness
- n New forms of collective action need to be shaped today, in line with contemporary challenges (prevalence of poverty in some developing countries, importance of global public goods – and, of course, long time objectives of shared peace and prosperity)
- n The joint discovery of these new forms of collective action requires a lot of sustained debate.
 - n Experience sharing
 - n Sharing views on the evolution of the world and on global governance
 - n Sharing views on methods and instruments
 - n International aid as an incipient global public policy (i.e. a form of international public, collective action).
 - n More cooperation is needed
 - n Between public agents and entities
 - n Between public and private agents.

Conclusion

- n How to structure collective action ? DAC partnership principles have been key:
 - n Establish a continuous, long-term process
 - n Shared information
 - n Open debate
 - n Consensus building
 - n Establishment of good practices
 - n Joint monitoring
 - n Peer pressure
- n Perseverance and gradualism: collective action is a long term, progressive, joint learning process.