PERSPECTIVE

Beyond Old-style Aid

Eveline Herfkens
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- Even though, according to the UN's *Millennium Development Goals Report 2010*, the developing world seems on track to achieve the poverty reduction target by 2015, and some results indicate that the MDGs are achievable with the right policies and adequate international support, progress on several of the goals is still insufficient – and some of the poorest countries are falling behind because developed countries are failing to provide the proper amounts and quality of aid.

- The consensus reflected in the Paris/Accra Declarations on Aid Effectiveness – signed by all OECD governments – on what contributes to aid effectiveness, implies that no aid yields lasting results without developing-country ownership. Therefore, instead of allowing accountability to donors to undermine good governance and development effectiveness, developing-countries' governments need to be accountable to their own citizens and elected representatives.

- Furthermore, the author seeks to show why, apart from reducing the number of donors, the ultimate aid delivery mode is budget support. Budget support which relies on recipient country systems creates crucial incentives which are likely to improve public financial management for both recipients and donors.

- However, improving aid effectiveness is no substitute for meeting commitments on aid levels. Without European leadership and a commitment to improve »donor« governance, rich countries will lose credibility in any serious discussion of developing-countries' governance. Germany, too, can be blamed for a significant part of the gap between the billions of euros the EU pledged and what it has actually delivered.

Introduction

The Millennium Declaration represents the most important promise ever made to the world's most vulnerable people. Achievement of the Declaration's goals – for instance, to halve poverty or to achieve primary education for all by 2015 – would represent momentous improvements in the lives of billions, the world over. The Declaration has prompted action across the globe. Many developing countries' governments have strengthened their economic policies and governance; and developed countries have taken a number of steps – albeit inadequate – aimed at increasing the level and effectiveness of their aid. Progress across a large number of countries and indicators has been the result. According to the UN's *Millennium Development Goals Report 2010*, despite significant setbacks due to the 2008–2009 economic downturn, the developing world as a whole remains on track to achieve the poverty reduction target by 2015. It is estimated that it has already achieved the Millennium Development Goal (MDG) target of halting and reversing the incidence of tuberculosis and will meet or even exceed the MDG drinking water target by 2015. Major advances have also been made in getting children into school in many of the poorest countries, most of them in sub-Saharan Africa. Remarkable improvements in key interventions – for malaria and HIV control, and measles immunisation, for example – have cut child deaths by a third. While these results prove that these Goals are achievable with the right policies and adequate international support, progress on several of them is still inadequate and some of the poorest countries are falling behind, in good part because developed countries are falling short in providing proper amounts and quality of aid.

Aid Levels

The Declaration provoked lofty pledges to increase aid (Gleneagles and the Luxembourg EU Summit in 2005) and its effectiveness (Paris 2005 and Accra 2008) with action plans, indicators and target dates. These commitments have not yet been realised in the budgets and aid administrations of most rich countries, however. As a result, the lack of adequate and effective international financing has been an important constraint on achieving the Goals, and much of the blame for failure to achieve the Goals should fall on the rich countries. Since its meeting in Gleneagles, the G8 has not focused on the Eighth Goal, the one Goal which specifically requires action from the rich countries on overall aid. Instead, by pledging vague billions for individual Millennium Goals, but never in addition to earlier promises, they have created smokescreens concealing how much aid they have actually delivered, recycling old commitments and distracting attention from the fact that they have failed to increase total aid as promised. This year in Toronto it was time to turn to the Maternal and Child Health Goals, recycling funding previously committed to other Global Health issues.

The EU has shown tremendous leadership at past UN Summits on development (in 2000 at the Millennium Summit, at the 2002 Finance for Development Conference in Monterrey and at the UN Millennium +5 Summit). But the EU will go to this September's Summit empty handed: it is behind its own agreed schedule to achieve the 0.7 per cent ODA/GNI by 2015, particularly because of the disappointing performance of large countries, such as Germany. The Commission, in its first draft European position for this September's UN Summit on the MDGs, tried its best to suggest a credible pathway to delivering European aid commitments in 2015. This would have required Member States to: (a) establish verifiable annual action plans for reaching their targets and publish their first plans before September 2010; (b) outline the planned ODA spending for the next budgetary year and estimates for the remaining years until 2015; and (c) propose EU-internal »ODA Peer Reviews«, reporting the results to the European Council. Moreover, the European Parliament urged a new interim target of 0.63 per cent of GNI as ODA for 2012. But the Member States severely weakened the Commission's draft, attempting to wiggle out of their earlier commitments, preferring to call on others to play their part. In the meantime, a lot of noise and political energy has been spent on discussing the need to help poor countries cope with climate change and on finding new innovative financing mechanisms, including a financial transaction tax, even if not a single member state supporting such a tax intends to earmark it for development spending. But even if that were agreed, until an iron-clad consensus has been reached that these resources should be *additional to the existing 0.7 per cent commitment*, this is hot air, distracting from, not contributing to, the achievement of the MDGs.

This does not bode well for this year's Millennium +10 Summit: as rich countries are hesitant to discuss their business at the UN, UN Summits tend to codify agreements reached elsewhere, for example at the DAC, WTO or EU Summits. Without European leadership and a commitment to improve »donor« governance, rich countries will lose credibility with regard to engaging seriously in discussing developing countries' governance. This would allow developing countries to get away with their traditional habit in UN debates of blaming external forces and powers for their plight, undercutting the important breakthrough of the Millennium Declaration and the Monterrey Consensus: the acknowledgement that developing countries bear the primary responsibility for their own development and for achieving the MDGs.

Germany can be blamed for a significant part of the gap between the billions of euros the EU pledged and what it actually delivered – and that share will increase in the coming years as the German budget for ODA stagnates. German ODA fell to 0.35 per cent of GNI in 2009, the lowest for three years, and as no substantial increases are budgeted for ODA, Germany will clearly fail to meet the EU target of 0.51 per cent ODA/GNI this year and, without any time frame of annual planned increases up to 2015, the 0.7 per cent in 2015. In the meantime, other countries, such as Spain and the UK, despite being hit harder by the crisis, have maintained sharp aid increases in line with their commitments. As Europe's largest and most responsible country and with Chancellor Merkel's personal commitment to the Millennium Goals, one would not expect Germany to rank so far below the EU-15 average, with only Austria, Italy, Greece and Portugal doing worse: that is not where Germany belongs.

Aid Effectiveness

A variety of donor and recipient policies and conditions determine the effectiveness of aid. The most critical is that donors and recipients have a common understanding that donors do not develop countries. Developing countries develop themselves. Such an understanding leads to developing-country ownership of the assistance programme, without which no aid yields lasting results. This section discusses the major determinants of aid effectiveness and their implications for the German aid programme, keeping always in mind that improving aid effectiveness is no substitute for meeting commitments on aid levels.

There has been concern about aid effectiveness for decades. What is new is that today donors acknowledge they are part of the problem – and have agreed to become part of the solution. There is now a broad international consensus, based on the evidence of well-documented lessons learned from the mistakes and failures of the past half century on what contributes to aid effectiveness. This consensus is reflected in the Paris/Accra Declarations on aid effectiveness, signed by all OECD governments and many developing countries and NGOs.

The OECD uses a benchmark to capture the quality of aid for individual donors, measuring aid levels in terms of country programmable aid (CPA). This is aid that remains after deducting all »aid« spent in donor countries themselves, which is unpredictable and cannot be programmed by recipients to support their development plans. CPA is the part of ODA that can genuinely be spent by poor countries so that their programs can achieve the MDGs. According to OECD calculations, this type of aid represents less than half (46.8 per cent) of gross 2005 bilateral ODA. CPA represented only 30 per cent of German gross ODA in 2005 – well below the OECD average. Thus, for Germany, there is room to triple, as the Americans say, the »bang for the buck« – even with the present amount of »bucks«.

»Ownership« and Donor Alignment

The OECD/DAC's *Surveys on Monitoring the Paris Declaration* have noted that, despite some progress, Germany's performance on several measures of aid effectiveness remains far below the 2010 targets. This refers particularly to the weak use of partner country systems. At the heart of the Paris Declaration is that aid should be integrated in the recipient's regular planning and budget systems.

Donors need to realise that developing countries – not just their governments, but also parliaments and civil society – must set their own strategies for development, improve their institutions and tackle corruption. Donors should respect that ownership. Aid by itself will not result in development and »buy« the Millennium Goals. Donors must stop thinking about »our« German or Dutch projects, and instead start to focus on »their« – the developing country's – development process. Donors have to move away from building »our« schools or hospitals to supporting »their« education or health policies, and where possible transfer the management of aid to the partner government. They must allow recipients to use their own procedures and ensure that the use of these funds is subject to scrutiny by their citizens and parliaments.

Traditionally, aid programs have consisted primarily of a collection of individual, donor-run projects. This old-style aid does not tackle the root causes of poor service delivery in health or education. One project at a time will not lead to development, if it bypasses and ignores the overall policies and responsibilities of the developing country government. The donor-led project approach to development led to a raft of small uncoordinated donor projects, which – even when successful – hardly made a dent in development. They were tiny islands of perfection in oceans of despair, which collapsed back into the ocean once the donor left: because who was supposed to pay for maintenance and teachers' or nurses' salaries? Old fashioned aid also inhibited good governance. Accountability to donors replaced accountability where it should be: to their own citizens and elected representatives. As long as donors do not work through governments, their citizens look to the donor community for the fulfilment of their needs, instead of demanding that their own governments perform. Thus, aid actually undermined good governance and accountability, so crucial for sustainable development.

Why Old Habits Die Hard…

Donors have sometimes preferred project financing merely because they assume that it allows them greater visibility and yields intangible »political« benefits or goodwill. Ministers travelling to Africa want to have a photo opportunity and hoist their national flag in front of the little school that their taxpayers' money built. More fundamentally, donors think that they have control over projects and so are better able to ensure accountability to their own parliaments and taxpayers. However, by delivering funds outside of the national budget, donors have merely given themselves a false sense of security. In the past, donors have used the argument – still widely heard in Germany – that by keeping funding in off-budget projects they could ensure that it went to the »right« kinds of expenditure, such as primary education rather than military spending. But, by providing funding for the »right« kinds of expenditure, donors release governments from the responsibility of providing those same services, freeing up resources within the government budget which can be spent on other things. Trying to ring-fence aid by keeping it off-budget in a project is simply providing donors with a false sense of security. Money is fungible. No external intervention can be isolated from the overall context. Thus, a donor might get the illusion of control, but in fact undermine development effectiveness.

Good Governance

It is a good thing that donors no longer unconditionally transfer large sums to kleptocratic dictators such as Mobutu. But today the pendulum has swung too far in the opposite direction. Over the past decade, many countries in Africa have made great improvements in their governance, particularly regarding economic management and democracy, including the emergence of more assertive parliaments and a thriving civil society. But the perception that governments and public sector institutions do not function well enough in Africa has persisted.[1] As a consequence, many donors are not listening to African governments, are reluctant to fund them and often try to even bypass them, including by working through NGOs, thus perpetuating the situation. Financing outside of the recipient government's budget undermines local accountability, including the most powerful parliamentary tool – the annual scrutiny and approval of the national budget. Domestic accountability has to improve and donors must require that governments are accountable to their own citizens and their own parliaments, instead of to their donors, their paymasters. There is no better way to get governments to shape up than to have their own citizens stand up and speak out, demanding accountability. Isn't the ultimate and only way to improve governance to have citizens hold their government to account? And aid can play a positive role in this respect through capacity building with regard to parliaments, media and NGOs, which have moved from building and running schools and hospitals to empowering citizens to demand that their governments deliver basic health and education.

1. In the meantime, intra-EU transfers of cohesion and structural funds are disbursed according to the administrative systems of recipients, some of whom are more corrupt than some of the African recipients, according to Transparency International and World Bank Governance Indicators.

Budget Support

The ultimate aid delivery mode that relies on recipient country systems is budget support. As such, it requires that donors have some level of comfort with these systems. Donors who have been giving budget support to good performers for many years can vouch for its effectiveness and attest to the fact that taxpayers care about results, not procedures. The Netherlands was the only donor after the 2000 flood in Mozambique to rely fully on Mozambique's own system for the use of reconstruction aid. A year later the only schools rebuilt were with Dutch money, while all other donor »emergency« funding was still tied up in donors' red tape or awaiting yet another consultants' report. At the same time, in Ghana, the Netherlands moved to budget support for the health sector. Having thus become a credible partner in the policy dialogue, the Dutch successfully questioned the high cost of malaria bed nets. Ghana's subsequent policy change ensured affordable access to such nets for a much larger part of the population on a sustainable basis than any Dutch project handing them out would ever have achieved.

Independent evaluations have shown that budget support has contributed enormously to improving public financial management in recipient countries. This is not surprising, as budget support created, for the first time ever, crucial incentives to improve public financial management for both recipients and donors. And there is a huge bonus for doing so: improved financial management implies not only that northern taxpayers' money is spent better, but – and this is much more important – that domestic resources in recipient countries are used more effectively.

Developing Countries' Domestic Resources

The whole aid debate ignored for much too long that development is not just about the marginal donor dollar or euro spent well, but also about how aid recipient countries spend their own resources. Even in the most aid-dependent countries, domestic resources constitute the bulk of the finances for development. Ultimately, the only way to finance development is domestic resource mobilisation and spending these resources responsibly. The only way that donors can ensure that their funding is well used is to monitor the totality of the recipient government's budget, and to help improve the recipient's systems of public financial management. And that is happening now, with many donors implementing the Paris Declaration, supporting poor countries instead of undermining their efforts or trying to run them. Donors cannot, on the one hand, tell developing countries that they have primary responsibility for their own development and insist that they take ownership of development plans and programs while, at the same time, persisting in micro-managing and using donors' own procedures. Donors must be more willing to let go and see their partners in real command of development strategies. Old-style aid fits in with the myth of Western superiority – and indeed even reinforces it. We lecture, you listen; we give, you receive; we know, you learn; we take care of things – because you cannot. Ironically, aid effectiveness cannot be increased unless donors resist their natural temptation (very strong in Germany) of wanting to control its detailed use by the recipient.

Today's Chaotic Aid Architecture: Too Many Donors

Another factor that undermines aid effectiveness is the proliferation of donors, which strains the recipients' administrative capacity. The number of developing countries with over 40 active official donors has ballooned from zero in 1990 to over 30 today, and the number of individual projects is approaching the 100,000 mark – worth on average hardly more than a 1 million USD per project. And some donors, including Germany, do not have just one aid agency but multiple entities, each with their own priorities and procedures for the recipients to deal with. Particularly when these donors provide old-style project aid, the transaction costs are huge. Thousands of separate donor projects imply a massive and wasteful amount of administration for already weak partner governments, as different donors have their own rules and procedures for procurement, monitoring, reporting and evaluation. Recipients are asked to follow literally thousands of complicated rules and prepare scores of written reports for different donors often requiring exactly the same information. And donors have imposed a huge number of missions on beneficiary countries, which have to wine and dine them instead of focusing on what they should be doing: running their countries and trying to develop their own policies. Donors are partly responsible for creating the phenomenon of »limited absorptive capacity« which some donors then use as an excuse not to increase aid.

Donors need to work together more effectively and agree on a better division of labour. Germany as EU President pushed this within the EU, but it all remained merely lofty intentions, as it requires donors to drastically reduce their presence in many countries and sectors. The EU should be able – as it did on ODA volume – to make time-bound commitments on the Paris/Accra targets and implement the division of labour envisaged in their Code of Conduct. As the EU encompasses two-thirds of official donors and gives more than half of all ODA, swift European action can make a big difference in reducing transaction costs.

Multilateral Aid

The most effective way to reduce the number of individual donors would obviously be to channel more ODA through multilateral organisations, as, for example Spain does. Alas, the multiple UN funds and programs are never sufficiently funded to achieve any critical mass. But its members insist that it operate in every developing country. Most UN agencies need reform (towards »Delivering as One«) and are lagging most bilateral donors on aid effectiveness.[2] Generous core-funding for these would greatly increase Germany's visibility in the international arena and boost its credibility to engage in the debate on much needed reforms. Germany, as a donor to the UN system, is at present not just less generous than Japan, the UK and the US, but outright stingy compared to the much larger contributions, in absolute terms, of the Netherlands, Spain, Norway and Denmark.

The World Bank/IDA window scores better on most indicators measuring aid effectiveness than the average bilateral donor. And IDA is focused on poor countries while too much bilateral aid benefits middle income countries, which do not need external concessional resources to achieve the MDGs. Over the past few years about 60 per cent of Germany's aid budget has gone to middle income countries and emerging markets, including Brazil, China, India and South Africa, which themselves are now major donors. And Germany's share of ODA to Sub-Saharan Africa (less than 25 per cent) was lower than the average donor – despite its Gleneagles promise to double aid to this region. Germany's financial contribution to achieving the Goals would greatly increase if its aid programme concentrated its focus on low-income and least developed countries in Africa.

Conclusion

Achieving the MDGs requires national action, primarily by developing countries. But the poorest need major donors such as Germany to play their part. No new plan is needed, just implementation of German commitments which have been made over and over again:

- to achieve the 0.7 per cent, by adopting an ODA growth implementation plan addressing both resourcing and spending;[3]
- to increase the share of its aid channelled through recipient country systems;
- to work with other donors to improve division of labour and better coordinate German missions, analysis, procedures and technical assistance;
- to contribute its fair share to multilateral channels;
- to focus ODA on low-income countries, particularly the least developed in Sub-Sahara Africa.

With only five years to go it is time for Germany to act. And German citizens want their government to do so,[4] conscious of the fact that in today's globalised and affluent world all people should be guaranteed human dignity, a minimum level of social protection, as well as access to basic nutrition, health care and education. With Germany's economy rebounding ahead of most others, there are no excuses left to further delay living up to the most important promise ever made to the world's most vulnerable people.

2. Aid Quality and Donor Rankings, Stephen Knack, F. Halsey Rogers and Nicholas Eubank. The World Bank Development Research Group.

3. The recent DAC Peer Review's main recommendation for Germany.

4. The 2008 poll by WorldPublicOpinion.org reveals strong support among Germans for fighting poverty abroad, stronger than among the French or British publics.

About the Author

Eveline Herfkens was Netherlands Minister for Development Cooperation (1998–2002) and founder and executive coordinator of the UN Millennium Campaign (2002–2007). Previously, she served as Netherlands Permanent Representative in Geneva, Executive Director of the World Bank and Member of Parliament.

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Friedrich-Ebert-Stiftung | Global Policy and Development
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Responsible:
Jochen Steinhilber, Head, Global Policy and Development

Phone: ++49-30-269-35-7510 | Fax: ++49-30-269-35-9246
http://www.fes.de/GPol

To order publications:
Sandra.Richter@fes.de

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