



# DEVELOPMENT COOPERATION FORUM

## Informal summary of roundtable 1

### *Allocating more aid: where should it go?*

30 June 2008

*Chair:* Jean-Marc Hoscheit, Vice President of ECOSOC

*Moderator:* Ali Mahaman Lamine Zeine, Minister of Economy and Finance, Niger

*Panelists:* Paul Collier, Professor and Director, Oxford University;  
Richard L. Greene, Deputy Director of Foreign Assistance, U.S. Department of State; and  
Sambou Wague, Secretary-General, Ministry of Economy and Finance, Mali;

#### **Introduction**

Current aid allocation practices are not sufficiently conducive to progress towards the national and global development goals. While a higher proportion of aid is going to the poorest countries, allocations are often not adequately based on needs, results or country vulnerability to exogenous shocks. Growing aid flows to the social sectors and governance have mirrored declines in allocations to infrastructure and production; particularly significant is the decline in agricultural aid.

Aid allocation implies prioritization of certain countries, regions and groups within countries as well as sectors. Accordingly, the basic question underpinning discussions on aid allocation is how to achieve maximum impact in respect of achieving national and internationally agreed development goals.

Following the opening remarks by the Chair, the Moderator posed several questions to guide the panelists and frame the general discussion and:

- How to pursue an adequate system for ensuring that aid allocation is responding to needs or results thereby avoiding *donor 'darlings' and 'orphans'*?
- What are the obstacles to donors establishing *objective and transparent criteria* for aid allocation? What could motivate donors to increasingly pursue such criteria?
- What is the impact of donor policies prioritizing individual countries' access to aid? How may programme countries take charge of leading donor *'division of labour'* exercises at the country-level?

#### **Focusing on weak states and productive sectors**

*Paul Collier* argued that the fundamental objective of aid was to lift ordinary people in poor and slow-growing countries out of poverty. The creation of wage jobs and enhanced

provision of basic social services are critical in that respect. The poorest and slowest growing countries are desperately short of proper wage jobs, thus aid should be increasingly addressing employment creation in the private sector. With regard to basic social services, the European model, anchored in public servants motivated by the public interest, does not fit the context of the poorest countries. As a result, donors tend to rely more on incentives and close monitoring of resource use in these instances, i.e. non-public provision through civil society and other similar channels.

Aid allocation should primarily be a function of needs, while selection of the most appropriate aid modality should be a secondary concern. Yet the amount of aid provided too often determines the modality by which it is delivered. As a result, countries with relatively stronger public administration to implement general budget support attract more aid while those with weak capacities receive less. Paradoxically, weak states are often those in urgent need of more development aid. Against this backdrop, Mr. Collier proposed establishing a certification system independent from aid-allocating agencies to assess the extent to which the budget systems of programme countries are competent in managing resources delivered through budget support. In addition, a process of capacity building should be put in place to bring countries to the required level of certification. Finally, a separate system charged with disbursing aid in the most expeditious manner should be created.

Aid allocation would furthermore have to be responsive to political and strategic opportunities as well as changes in price-levels. For example, significant national efforts to enact policy change and political reform should be supported with greater volume of aid. Aid should also focus on building sustainable capacities, rather than simply addressing short-term poverty concerns. Enhanced focus on infrastructure development in aid allocation, for example, could potentially help catalyze enhanced job creation. In this regard, an important corollary of construction booms in programme countries is sharp increases in prices, which are often not adequately factored into aid allocation.

### **Aligning aid allocation with global development goals**

*Richard L. Greene* provided an update on recent trends in U.S. foreign aid policies, focusing on the growing consensus within the Government of promoting the achievement of the internationally-agreed development goals through effective partnerships with governments in developing countries. At the same time, he acknowledged that there are no quick fixes and that policy and resource requirements need to be constantly reviewed. As the result of high-level political support, there are ongoing efforts to bring greater coherence to foreign assistance, for example, through the building of staff capacity.

Mr. Greene emphasized that the U.S. Government is committed to scaling-up ODA in conjunction with the launch of new programmes and mechanisms. Improving public-private partnership and information-sharing are considered important focus areas of this new strategy. Key priorities in the present U.S. foreign assistance strategy are: (a) removing obstacles to democratic development, (b) improving agricultural productivity, (c) supporting key development enablers such as economic growth and governance

infrastructure, (d) maintaining important security relationships, and (e) having the right number of trained people around the world to help carry out development programmes.

### **Lack of scaling-up aid undermining the realization of the MDGs**

*Sambou Wague* stressed that the achievement of the Millennium Development Goals (MDGs) requires more aid and the necessary supporting measures to maximize the impact of external assistance. Recalling the Secretary-General's analytical background report for the DCF, he expressed concern about the inertia of donors in meeting commitments to scale-up ODA, which declined in both 2006 and 2007.

At the present rate of progress, Mali will only achieve three of the eight MDGs by the year 2015. Constrained by weak administration, low tax base and little access to international financial markets, the Government lacks capacity to mobilize domestic and external resources, as well as ability to put in place the necessary policies to maximize the impact of aid. Mr. Wague emphasized a two-pronged approach of scaling-up ODA aligned with national priorities, while also taking responsibility for creating an enabling environment for growth by implementing structural reform, developing the productive sector, investing in good governance and capacity building, and pursuing synergies between national and sub-regional priorities.

### ***Refocusing aid allocation on needs***

During the general discussion, it was emphasized that scaling-up aid is indispensable to the realization of the internationally-agreed development goals. Amidst concern about the food crisis and global climate change, there were calls for greater aid allocation to the agricultural sector and economic infrastructure and to achieve global education targets, particularly in Africa. In addressing poverty and the food crisis, the needs of middle-income countries should not be neglected. This called attention to the great diversity of developing countries and emphasized the inappropriateness of the 'one-size-fits-all' approach to the delivery of aid.

Current aid allocation is not adequately balanced across countries and sectors, negatively impacting the realization of national and global development goals. It was argued that it should be primarily driven by needs, contributing to capacity building in developing countries. In enhancing the impact of aid allocations, objective criteria such as the achievement of the internationally-agreed development goals and vulnerability to exogenous shocks should supersede subjective governance indicators.

Development aid is as an important enabling factor in building capacity for more effective public administration in weak states, yet if aid is systematically channeled through non-state actors, rather than the machinery of government, improvements at the country level are unlikely to gain a foothold.

Concerns were also expressed about the lack of predictability of ODA flows and developed countries were accordingly urged to set clear timetables for annual increases in ODA in order to meet agreed commitments. In this connection, it was highlighted that

OECD/DAC is developing an information system to track forward-looking aid plans of its members.

While the growing fragmentation of the aid architecture, with increased earmarking of resources, undermines the effectiveness and coherence of aid allocation, this is exacerbated by the lack of policy coherence across the key areas of the Monterrey Consensus. In that context, developed countries were urged to review their agricultural policies with a view of contributing to the global effort to address the present food crisis.