Economic and Social Council

2012 Development Cooperation Forum

2nd High-level Symposium

AIDE MEMOIRE

Luxembourg, 18 - 19 October 2011

"Working together to increase the development impact of aid"

I. Background

The 2005 United Nations World Summit mandated the United Nations Economic and Social Council (ECOSOC) to convene a biennial high-level Development Cooperation Forum (DCF). The DCF was asked to *review trends and progress* in international development cooperation, including strategies, policies and financing, *promote greater coherence* among the development activities of different development partners and *strengthen the normative and operational link in the work of the United Nations*. As a United Nations forum, the DCF has universal membership. It was also conceived as a multi-stakeholder platform, and engages representatives of national and local governments, parliaments, non-governmental organizations (NGOs), philanthropic foundations and the private sector.

The third DCF will be held at the end of June 2012 in New York. To ensure a consultative, inclusive and substantive preparatory process, a series of multi-stakeholder High-Level Symposia are being organized by Member States and the United Nations with the participation of senior experts in aid management and development cooperation. They offer a platform for informal debate on key development cooperation issues to be addressed at DCF. The DCF also contributes to other major United Nations events such as the 2011 Fourth High-level Conference on Least Developed Countries (LDC-IV). Its work is also timely in light of the Fourth High-Level Forum on Aid Effectiveness to be held in Busan, Republic of Korea, in November-December 2011.

A first DCF High-level symposium in preparation of the 2012 DCF was held in May 2011 in Bamako, Mali. It focused on "*Gearing Development cooperation towards the MDGs: Effectiveness and Results*". It underscored the importance of aiming for medium to long-term country-owned development results, while bearing in mind the concern to ensure that development objectives are achieved in a cost effective way. The Luxembourg event is the second DCF High Level Symposium.

The Luxembourg High-level Symposium:
"Working together to increase the development impact of aid"

Context and objectives

At the 2010 United Nations MDG Summit, the international community re-committed itself to achieving the MDGs by the 2015 target date. It also pledged to advance and strengthen the global partnership for development. In 2010, donor countries provided a record-high US$129 billion in official development assistance (ODA). Yet, with an early fiscal consolidation in several developed countries it seems increasingly unlikely that the estimated 2015 target level of ODA of US$ 300 billion (at 2009 prices and exchange rates) will be reached.

Addressing this financing gap requires that developed countries make good on their aid commitments. At the same time, the question of how to best deploy limited development resources is emerging with renewed urgency.

Aid can impact on the MDGs either directly through programmes targeting poverty eradication, the provision of basic services or other aspects of human resource development and empowerment. It can also do so indirectly by helping developing countries mobilize resources for their own development.

In this regard, the call of the Monterrey Consensus to intensify efforts to promote "the use of ODA to leverage additional financing for development, such as foreign direct investment, trade and domestic resources" is more topical than ever. Indeed, a growing share of development aid is already provided to promote trade, domestic and foreign private sector investment, financial sector reforms, and enhanced Public Financial Management in a number of developing countries.

The main objective of the DCF Luxembourg Symposium is to examine how to use aid to leverage other sources of development finance in a way that ensures maximum impact and continued focus on poverty reduction and the achievement of the Internationally Agreed Development Goals, including the MDGs.

The first day of the Symposium will analyze lessons from good practices in using aid to catalyze both international and domestic resources. This will include a discussion on how to ensure that the growing amounts of aid targeted at mobilizing other sources of development finance (such as tax revenue, inclusive financial sectors, including microfinance and foreign direct investment) have maximum impact on poverty reduction and other internationally agreed development goals as well as on sustained and inclusive growth. It will analyze lessons learned and address key concerns and challenges. It will also look at how to ensure that additional resources advance sustainable development.

The second day will discuss experiences of programme countries in promoting more coherent management and use of different sources of development finance and different modalities of cooperation in a coherent manner to support their own development strategies. A second session will be dedicated to ways of strengthening mutual accountability on aid commitments among the different development cooperation actors. This would include recommendations for promoting evidence-based and inclusive country- and sector-level reviews of national aid policies and definition/review of targets for individual donors – to enhance the results of aid.

The Symposium will facilitate a structured, interactive and substantive dialogue to identify critical objectives and trade offs, obstacles encountered and policy solutions which have been tested at the national and global level.

Policy recommendations from the Luxembourg Symposium will feed into the preparations of the DCF which will be held at the end of June 2012. They may also inform the Fourth High-level Forum on Aid Effectiveness to be held in Busan (Republic of Korea) in November-December 2011.

Discussions are expected to be informal, interactive and candid throughout the Symposium. It is expected that no statements will be read out.

Symposium sessions

Session 1. How to maximize the development impact of aid: Mobilizing development finance to achieve the MDGs

Promises made by Heads of State and Government at United Nations and other conferences and summits are yet to be met in full. The record high US$129 billion official development assistance (ODA) provided by donor countries in 2010 was equivalent to only 0.32 percent of the combined Gross National Income (GNI) of members of the OECD Development Assistance Committee (DAC) -- much below the 0.7 per cent United Nations target. Aid projections are also a matter of great concern. Owing to fiscal and other constraints, ODA growth is expected to slow to about 2 per cent per year during 2011-2013, compared to 8 per cent growth annually over the previous three years. Closing this “MDG financing gap” is essential to achieve the MDGs by 2015. So is maximizing the development impact of aid.

One factor limiting the development impact of aid is that, at the moment, aid is not sufficiently allocated based on needs and structural vulnerabilities. The concentration of aid in a limited number of developing countries has not changed in the past decade. The top 10 recipients receive about one quarter of DAC aid. While the vast majority of Least Developed Countries (LDCs) remains far off track from achieving the MDGs, in 2009, DAC member countries provided only 0.11 per cent of their combined GNI to LDCs, well short of the United Nations target of 0.15-0.20 per cent. Preliminary estimates show that Africa will receive only about US$11 billion out of the US$ 25 billion increase promised at Gleneagles. Moreover, aid flows to countries affected by conflicts and instability have been more volatile than those to other countries, reducing the effectiveness of the aid provided.

Nonetheless, given its focus on the MDGs and the social sector, aid has been targeted to the poorest, which is not always the case of other sources of development finance.

While there has been a sharp increase in the absolute quantity of aid, aid dependency – namely the proportion of government spending that comes from aid – has fallen considerably in the poorest countries. Other sources of development cooperation have grown in importance. South-South and other non-DAC official cooperation for development purposes have grown significantly over the past decade. Data on such flows are incomplete but were estimated to be in the range of US$12-15 billions as of end-2008. Private philanthropy to support the development of developing countries was estimated to have reached US$ 53 billion in 2009, mainly, though not exclusively, from sources in the United States of America.

In many developing countries, aid is also now dwarfed by other financial resources such as remittances, foreign investment, bank loans or bonds and from domestic sources such as tax revenue and domestic savings investment and loans. Official recorded remittances to developing countries are estimated to have totaled US$325 billion in 2010. Net private capital flows to developing countries have increased to about US$ 391 billion in 2010. An increasing share of total global foreign direct investment is being provided by developing and transition countries, mostly directed at the natural resources sector (to 29 per cent in 2010 compared to 16 per cent in 2007). It is also highly concentrated in a small number of countries.

Foreign capital can make an important contribution to development. In particular, where Foreign Direct Investment (FDI) forges linkages with the wider local economy, a positive impact on development and MDG achievement can be observed. South-South foreign direct investment can be particularly effective in forging such linkages, as the technology and skills used are more likely to be similar to those used in receiving countries. This may lead to reducing aid dependency, which can help countries increase their fiscal and policy space and empower them to design their own country-owned and country led development strategy. At the same time, the surge in foreign capital also poses risks by making the domestic financial sector more vulnerable and cause asset price bubbles, inflationary pressures and upward pressure on exchange rates.

Aid itself has played an important role in reducing aid dependency. There is evidence that, where it has been used effectively, aid has helped to mobilize additional resources by encouraging higher taxation, savings and investment, including by the poorest, and helped to accelerate growth. It has also helped to build the infrastructure and a well-educated and healthy labour force – all of which is essential to attract investment. Aid has been particularly crucial in least developed countries (LDCs), which often struggle to attract private flows and due to their high level of poverty have less potential to generate domestic resources. Aid has also helped to strengthen recipient countries' public procurement system. The resulting increased use of public procurement systems has in turn helped to unleash the full potential of aid to create local capacities, jobs and income.

Reduced aid dependency is what developing countries aim to achieve. Not only does it give back to developing countries their "policy space". But also, at times of budget cuts, it shields developing countries from the volatility of aid flows which tends to be higher than that of domestically-generated flows. It also helps to promote better domestic accountability between governments and citizens for the delivery of services, which is easily undermined when a large part of the funding of such services comes from donors. Reducing aid dependency is hence also an important part of enhancing domestic accountability.

During this session, developing countries, donors and non-executive stakeholders will have the opportunity to discuss when aid has been most effective in leveraging additional sources of development finance and the perceived impact on long-term development and on poverty reduction. This will be compared with the impact of aid targeted directly at the most vulnerable and marginalized groups of societies.

The following questions may be addressed:

- How can aid be best used as a lever to promote the mobilization of domestic and international resources? Is there a trade-off between using aid to this end versus using it to directly support social programmes?

- What measures can help ensure that aid raises the kind of resources that have maximum impact on development and the achievement of the MDGs?

- Where should aid best be used to fully tap its potential to reduce aid dependency?

Session 2. Aid to catalyze domestic and external resources: What have we learned?

Panel 1: Broadening access to inclusive financial sectors, including microfinance

Today, more than 2.5 billion people worldwide lack access to regular and affordable financial services. This deprives them from opportunities to invest, raise or stabilize their incomes and diversify their assets, which in turn prevents them from reducing and mitigating risks. It also prevents small enterprises from making productive investments and from creating jobs. This highlights the urgency of redoubling effort to improve access to inclusive financial sectors. Access to financial services can empower people to lift themselves out of poverty and serve as a catalyst for MDG achievement.

Financial inclusion is the opportunity to access and use financial services to one's own benefit. Access is necessary, but not sufficient for financial inclusion. Transparency is also required: finance is only inclusive if households and firms have the capacity to fully understand the terms, returns, costs and risks of financial transactions so as to make informed decisions. Even then, the usage of credit, deposits and payment services is only beneficial if it leads to improvements in the wellbeing of households and the financial performance of small firms. Impact, i.e. the evidence of benefits for households and firms as a result of using financial services is thus the third attribute of financial inclusion.

The Monterrey Consensus on Financing for Development recognizes the importance of inclusive financial sectors. It states that "microfinance and credit for micro-, small and medium-sized enterprises […] as well as national savings schemes are important for enhancing the social and economic impact of the financial sector". The appeal of microfinance for developing countries' governments and international donors originally lay notably in the degree to which the sector promoted market-oriented solutions with positive effects on the MDGs and in its focus on small scale enterprises and women as borrowers. Public authorities, in particular in low income countries, have provided a large amount of resources to support microfinance institutions.

These efforts have been complemented by bilateral and multilateral donors. According to 2007 estimates, only 15% of microfinance funding came from foreign sources.

Donors have long provided support to microfinance institutions. Over the past decades, several bilateral agencies encouraged their own cooperative banking networks including Crédit Mutuel (France), the SDID (Canada), DGRV (Germany), WOCCU, IRU and ICA. In addition NGO-type microfinance institutions have been massively supported by a broad range of international networks including ACCION, Opportunity International, Save the Children, World Vision and CRS which each in turn are benefiting from substantial transfers from public aid agencies. The past years have seen an exponential increase in the amount of aid devoted to microfinance institutions. A study from the Consultative Group to Assist the Poor (CGAP) shows that more than US$ 13 billion have been committed for this purpose by international donors and investors in 2010 with an increase of US$ 1 billion per year.

With an increasing amount of aid being devoted to the microfinance sector, it has become all the more important to provide evidence about the development impact of aid supported microfinance. Especially at a time of economic austerity, when many competing demands are placed on limited development monies, there is increased scrutiny of the impact of subsidies to strengthen inclusive financial sectors as compared to those targeted at other social sector programmes.

The evidence has been mixed. Irrespective of their tendency to make profits, many microfinance programmes are not viable without concessional lending from donors, even beyond the start up phase. There is indication that microfinance may have benefited people with entrepreneurial skills and around the poverty line or above, rather than the poorest. Moreover, income gains for borrowers have been modest. Where not used appropriately, microfinance can also expose borrowers to increased risks, as has become apparent during the crises of the past few years in a few countries.

It has also been pointed out that the development of inclusive financial services has been uneven around the world and that more needs to be done to address this imbalance. Studies show that microfinance is more developed in East Asia and the Pacific, South Asia and Latin America and the Caribbean. Those continents account for 85 per cent of the microfinance customers. Africa, which comprises 33 of 48 Least Developed Countries in the world, only represents 9 per cent of the global microfinance customers. Even within Africa, access to microfinance services has been highly unequal. For instance, Ethiopia and Kenya have 2.3 million and 1.5 million MFI customers respectively, while countries such as Angola or the Central African Republic only have 8,500 and 2,800 customers respectively.

On the other hand, there is the expectation that, with time, microfinance institutions can and should become more financially sustainable. An important development has been the growing diversification of suppliers of funding and the increasing role of capital market structures in microfinance – including investment arms of development agencies, groups investment funds, bonds issues and collateralized debt obligations (CDOs). Without the commercialization of the "microfinance industry" such a rapid growth would have been impossible. At the same time, the increased number of suppliers and funding mechanisms is making it more difficult for developing countries to ensure that their microfinance institutions are actively supporting the countries national development strategy.

The following questions may be addressed*:*

- We are seeing an increasing commercialization of the microfinance sector. In this changing landscape, how should aid be targeted and delivered to maximize the development impact of inclusive financial sectors, including microfinance?

- Access to financial services continues to be uneven between the different regions. What role can aid play in helping to spread it more widely while maximizing its development impact?

- There has been a rapid diversification of suppliers and funding mechanisms. How can donors and developing countries work together with relevant actors to ensure that microfinance, especially where funded by aid, is supportive of national development strategies and helps accelerate MDG achievement?

Panel 2: Aid to help developing countries to promote domestic revenue mobilization

Domestic revenue is the main source of development finance and the foundation for long term poverty reduction and sustainable development in many developing countries. Several United Nations conferences have underlined this. The potential of enhanced domestic revenue collection through improved tax policy and administration has been demonstrated widely. For example, Africa more than tripled its revenue collection between 2002 and 2008 to reach over US$ 506 billion, or more than ten times the volume of ODA.

The fundamental purpose of taxation is to raise revenue effectively, efficiently and fairly in order to finance public goods and services. This is critically important for achieving sustainable desired economic and social outcomes such as the Millennium Development Goals (MDGs). Effective tax systems are vital to strengthen the fiscal space of governments, allowing them to determine and fund national priorities. They can contribute to improved governance and legitimacy of the state and promote accountability of programme country governments to taxpaying citizens. This is especially important in some situations where there may be some lack of trust in governments due to the perceived or real misuse of public funds. Tax evasion also continues to pose a major challenge in many countries. As such, tax policy needs to be viewed as an issue that requires international attention and support in order to combat illicit financial flows, tax avoidance and evasion.

In more than half of sub-Saharan African countries, less than 15% of GDP consists of tax revenues, much of which is due to revenue from tax on natural resource. Non-resource related revenue remains minimal. Nonetheless, only 2% of bilateral aid for government administration, economic policy and public financial management focused on tax-related assistance in 2008 (see AfDB). 17 out of 53 African countries did not receive any long-lasting tax-related assistance.

The design of tax reform must be customized to each country. Nonetheless, a number of basic principles have been identified for reform of tax policies and administration. Sound tax policy reform requires creating a tax system that relies primarily on broad-based taxes at moderate rates, and a simplified tax system. Low levels of exemptions and preferences and a streamlined tax regime for small businesses are also important. Building a good tax administration requires working towards an integrated management structure organized along customer and functional lines, a strong strategic planning process, modernized information systems and business processes, good human resource development, a culture of customer service, as well as strong internal audit capabilities and institutional integrity.

Donors have extensively assisted programme countries in translating increased revenue mobilization into achieving key economic and social goals such as the MDGs. They have done so through programmes in areas such as promoting effective management of public funds, implementing of medium-term expenditure frameworks, developing performance measures for key outcomes of public spending programs, and promoting anti-corruption initiatives. G20 countries have committed to take firmer action on non-cooperative tax jurisdictions, and to ensure that developing countries benefit from efforts to improve tax transparency and the exchange of tax information.

Many developing countries still face difficulties in using ODA to build such tax systems and administrations. Their economies are often characterized by large informal sectors and a narrow tax base. This is compounded by weak capacity in tax administrations. Corruption also remains an issue. As a result, tax collection is inefficient and expensive. Its administration costs often outweigh the revenues the system is intended to create. The tax burden is often unequally distributed, also because of high levels of tax evasion. Money laundering is also a frequent problem.

The predominance of global value chains in international manufacturing and trade has motivated programme country governments to provide tax and other incentives to multinational companies in order to attract foreign investment and gain access breaks to these chains. Quite often, there is a tendency to engage in "beggar thy neighbour" tax incentive competition, resulting in a race to the bottom. Tax incentives, however, are not prime movers in respect of decisions on production location made by multinational companies. As a result, governments tend to lose out on significant tax revenue. Strengthened international tax cooperation can contribute to reduce this trend.

Despite these multiple challenges the potential of *national* tax administrations to collect revenue from citizens and the private sector is widely recognized. It is at the centre of national efforts to mobilize resources to finance development.

Much less discussion has taken place however on the issue of leveraging ODA to enhance domestic resource mobilization through taxation. Areas such as aid for trade, and to some extent, assistance for attracting investments have received greater attention. Existing research does not adequately reflect developing countries' views on the constraints they face to achieve a broad tax base and strengthen the capacity of tax administrations. Analysis is also needed on whether aid may crowd out national tax efforts and reduce government incentives to levy taxes and improve tax administration.

Some country case studies suggest that, to enable programme countries to garner additional sources of financing from taxation, ODA needs to:

- Be invested over longer time periods to support the design and implementation of effective and fair tax and revenue collection policies based on robust capacity and technical skills, including at the local level;
- Ensure country ownership of tax systems as well as their simplification and responsiveness to local specificities. National leadership to promote tax policy as part of improved public service provision is also important;
- Assist in broadening the tax base and balancing its burden evenly. This includes notably stemming capital flight and tax evasion and avoidance, making tax collection more cost effective, strengthening Large Tax payers' Departments to address transfer-mispricing and corruption, supervision and operations in customs and Excise Departments, monitoring and tracking of movement of imports, etc.;
- Strengthen the exchange of information among tax authorities on a regular basis, encourage bilateral tax treaties, enhance overall transparency and upgrade the use of information technology in tax administration;
- Enable programme countries to more effectively participate in regional, South-South and international tax dialogues and cooperation structures.
- Some suggest that conditionalities should be applied based on negotiations and in a selective manner. This could be done for example to encourage increased taxation of natural resources, especially if designed to take account of the high volatility of prices of natural resources. This implies that tax rates can be increased when the price is high (building on the Extractive Industries Transparency Initiative, EITI);

Thus, if designed properly, aid can help to increase tax revenue as well as help reduce tax evasion and corruption. It is however still unclear how aid in this area should be targeted and used to maximize the impact of taxation on social development and poverty eradication.

The panel will discuss the range of actions that may be deployed to directly increase tax revenues with the help of aid and discuss the link aid-taxation social development and the MDGs.

The following questions may be addressed:

- What are key challenges and success factors for using aid effectively to improve tax revenues, which, in turn, visibly impact on the achievement of the MDGs? How can all actors ensure that improvement in revenue levels leads to desired development results?

- What aid modalities should be used for improving revenue mobilization while ensuring country ownership and leadership, improved donor coordination, predictability of disbursement, and accountability for results? In what areas of tax reform should donors engage – and not engage?

- What is the bare minimum level of aid that is required to ensure optimal level of domestic revenue generation

Panel 3: Using aid as a catalyst for foreign direct investment

The *Monterrey Consensus on Financing for Development* in 2002 reaffirmed the importance of donors' support is developing countries in mobilizing international resources for development (Foreign Direct Investments – FDI – and other private flows), and they should adopt measures to enhance the stability of such funds and mitigate the risks faced by business investors. Monterrey also reiterated the importance of creating an enabling business environment. It also pointed to the linkages between such financial flows and domestic production activities, technology transfer and the training of local labour force.

Since then, FDI, and the use of aid to leverage such resources, have gained in prominence in national development strategies to help reduce aid dependence. The multiple crises and austerity measures in many donor countries have accelerated this trend. The 2010 Summit of the African Union and the Fourth United Nations High-level Conference on Least Developed Countries (LDCs) both called for placing a greater focus on infrastructure as compared to social expenditure. The growing role of private-public partnerships as a modality for investment and the need for advancing technology through FDI have also been stressed on many occasions.

Concrete benefits of FDI for poverty eradication and achievement of the MDGs are hard to measure across developing countries. Nonetheless, research and evidence suggest that aid can have a positive impact in mobilizing FDI. One of the more promising ways for aid to catalyze FDI is using it for the development of infrastructure and institutional capacity.

This session will discuss how to ensure that aid promotes the mobilization of FDI that contributes to progress towards the MDGs. It will distill good practices and recommendations on how this can be best achieved.

UNCTAD estimates that, overall, global FDI flows will recover to their pre-crisis level in 2011, increasing to US$ 1.4 - 1.6 trillion. FDI flows to developing economies rose by some 10% to US$ 525 billion in 2010, thanks to a relatively fast economic recovery and increasing South–South flows. Yet, the worldwide FDI recovery is still hesitant and subject to significant regional differences. There appears to be a significant decline in West Asia and Africa. FDI remains a vital source of funding in addition to ODA in most LDCs, landlocked developing countries (LLDCs) and small island developing states (SIDS). Middle income countries are themselves active investors and beneficiaries of FDI. Outbound flows from developing countries are increasing – by more than 20% from 2009 to 2010 alone.

Much of aid today is directed towards raising living standards, rather than directly focused on achieving sustainable exit from aid dependency through higher growth. Yet, it is estimated that one third of ODA is currently devoted to improving the key determinants for attracting FDI. This includes aid used for (i) investing in supporting infrastructure (e.g., power, transport, telecommunications) thereby making individual projects more profitable, (ii) improving the investment climate (e.g. simplifying investment procedures; increasing access to global trade and finance; and providing information for investors to assess opportunities and risks), (iii) directly financing private sector development: co-financing or guaranteeing FDI; or promoting financial sector development (bank loans, stock exchanges, venture capital, leasing). In some cases, FDI is also used to lower the costs of social programmes.

In addition, aid is being used to foster public-private cooperation. Over the past years, companies from developed and emerging markets have expanded their global value chains to increase operations in developing countries in order to explore new business opportunities or to deliver certain activities or products. Some private sector representatives have begun to participate in meetings with donor agencies and governments to explore the potential in areas such as renewable energy.

This kind of FDI may help to build local capacity and transfer skills, capital and technology. Through inclusive business models, companies can engage low-income communities across the value chains as consumers, suppliers, business partners and employees. However, not all countries have benefited equally from such cooperation. In particular, in LDCs, a lack of economic and social infrastructure often coupled with greater political uncertainty has hampered the establishment of such public private partnerships.

There is also a lack of coordination between individual public-private partnerships and broader public sector development efforts. More effective coordination among donors could make it easier for companies to identify the best programmes and partners. Broad based partnership is another key determinant for successful partnerships, as underscored in the Charter of Good Practice in using Public Private Dialogue for Private Sector Development. The challenge here is to ensure that ODA stimulates investments and that these newly generated FDI are "responsible investments" and contribute to (i) building national productive capacities, (ii) reducing poverty reduction in particular among the most marginalized and vulnerable groups of society, and (iii) promoting sustainable development.

Another option to encourage investors is to provide partial risk guarantees for private investment, mainly in large infrastructure projects. This is an area in which the World Bank and International Development Association (IDA) are most relevant. Aid can be used to provide a "first loss" reserve that enables private insurers to cover risks at a lower cost. Domestic investors should get equal opportunities to take advantage of such guarantees.

While it is critical to attract the kind of FDI that will have maximum impact on poverty eradication and social development, making this happen depends to a large extent on whether there is a conducive policy environment in the country. It is also subject to the specific interventions by the growing number of actors engaged in FDI – ranging from private-equity sponsored cross-border mergers and acquisitions to the activities of government-owned sovereign wealth funds. There is usually little room for national policy makers to influence the decisions of transnational corporations and financing institutions.

At the same time, little is known about the impact of aid as donors often end to bypass governments and go directly to the private sector. The most effective interventions are those that are firmly placed under local ownership, and that use programme countries' own planning, procurement and financial systems for ODA delivery. Increased coordination is needed between donor and progamme countries, within donors and among donors, to ensure that interventions have the greatest development impact.

The following questions may be addressed:

- How effective has aid been in promoting FDI (and public-private partnerships) that generate sustainable development results, particularly improvements in the social and environmental areas? In which sectors has aid been most successful in this regard (e.g. infrastructure)?

- What are the challenges faced by developing countries in managing and coordinating aid aimed at leveraging FDI and blended sources of funding to achieve positive development outcomes?

- To which extent are development cooperation strategies of bi- and multilateral donors guided by considerations to help enhance FDI that benefit the poor? How can donors and programme countries work together to ensure that public-private cooperation is better coordinated and supportive of national development strategies?

Session 3. Enhancing coordination and mutual accountability at country level: How can all actors work better together?

Panel 1: Towards more coherent management and use of development financing at country level

For development to take root, ODA and all sources of development finance, domestic or external, must work in a complementary manner in order to generate broad-based development.

At the same time, managing coherently the various flows of resources is no easy task. The drivers of these flows are diverse, ranging from governments (e.g. in the case of ODA and Sovereign Wealth Funds) to private investors (in the case of private equity and some cross-border merger & acquisition). The relative importance of each source of finance also varies from country to country. Ensuring that all external and domestic resources work together in contributing to national development objectives remains a persisting challenge for all developing countries.

First, different sources of finance do not necessarily share common motives, interests, objectives and priorities. Foreign policy objectives and political relationships are still among the determinants of aid flows. With regard to investment, there are funds invested for the purpose of acquiring a lasting interest in an enterprise and of exerting a degree of influence on its operations. In parallel, there are portfolio investments made by passive investors whose primary motivation is the rate of return on the asset. Priorities of investors range widely. Overall, approximately half of cross-border investment goes to the manufacturing sector, with the rest dedicated to the primary and services sectors. South-South cooperation pays particular attention to productive capacity development while private philanthropy shows strong interest in social sectors. Basic-needs financing vehicles (e.g. vertical funds) target access to a range of essential public goods, e.g. basic health care, clean water and child nutrition, etc.

Second, developing countries are generally in a weak position in negotiations with donors and investors. I n circumstances where there are persisting financing gaps, the natural tendency is to prioritize the quest for resources in order to meet immediate needs over long-term development results. Despite the establishment of mutual accountability mechanisms in the area of development cooperation, the asymmetry of negotiating power between donor and programme countries remains largely unchanged, making it difficult for developing countries to negotiate on pre-determined priorities for external flows.

Third, some developing countries lack the capacity to develop and implement the strategies, policies, systems, frameworks and financial vehicles that can mobilize various sources of development finance in supporting national priorities. National economic and social development strategies/plans should identify areas where development finance is most needed and can generate more impact. Regulatory frameworks and policies should be set up to regulate and provide incentives for various flows to ensure they are invested in the priority areas/sectors and in a way to generate maximum development results. Financial vehicles must be devised to tap into the potential of the untapped (remittances, personal savings) to achieve development results. Designing, implementing and monitoring such instruments demand capacities that are not readily available in developing countries. Some countries even lack the capacity to monitor aid, let alone the other flows, which however is a precondition for coherent management of resources.

Fourth, developing countries also need to ensure that their own policies are coherent and do not undermine their development priorities. This means bringing together all government ministries and agencies to design integrated policies. Relatively few developing countries have clear “beyond aid” coherence policies which, for example, define clearly the role they foresee for different types of external and domestic development financing in supporting their national development strategies.

Moving forward, it appears important that developing countries devise such coherent “beyond aid” strategy under the framework of MDG8, that donors embrace this strategy and that both commit to actions and indicators on the implementation of the strategy, which can be monitored annually. The wider applicability of such a strategy will need to be discussed further and tested on the ground.

The following questions could be addressed:

- Given their varying motives, interests and priorities, is it realistic and feasible to aim at ensuring that all flows contribute to common development objectives? Are all resource flows equally “manageable”?

- What are the gaps at national and international level that hinder coherent management and use of all sources of development finance? What can development cooperation do to bridge these gaps?

- What mechanisms would be needed to ensure that the various sources of funding are channeled in the most effective way to maximize development outcomes? Can the various flows be effectively coordinated simply through greater coordination among different actors at country level? What commensurate actions should be taken by the government of individual donors?

Panel 2: Towards more inclusive mutual accountability at country level

Enhancing mutual accountability and transparency for development cooperation is key to increasing the results of aid. This was most recently reaffirmed at the 2010 United Nations MDG summit.

Mutual accountability has the potential to promote mutual trust among all development cooperation partners (programme country government, all providers of development cooperation, citizens and non-executive stakeholders such as civil society organizations and parliaments). This can lead to improved aid predictability, increased budget support and enhanced use of programme country systems as well as support an integrated approach to development cooperation.

Critical components of effective mutual accountability mechanisms are well known. They include: a national aid policy; specific targets for individual providers and recipients which are monitored and discussed in high-level forums; strong recipient government, parliamentary and civil society leadership; independent analytical input from non-executive stakeholders in the review of progress; availability of comprehensive information on aid quantity and quality issues; and peer pressure among providers.

The ability of developing countries to plan, budget and evaluate the impact of aid depends on whether they have easy access to detailed and timely information on the provision of aid, its modalities, conditionalities and the level of tied aid, as well as aid flow predictability.

The DCF has assumed an important role in advancing mutual accountability at national-levels. In support of the DCF, the United Nations have conducted two surveys on mutual accountability and aid transparency. Initial results from the second survey suggest that only very few countries had put in place three of the most essential "building blocks" for mutual accountability at country-level (national aid policy covering all aspects of aid effectiveness, locally-driven aid quality and results monitoring frameworks; annual analysis of progress towards these results by individual providers). These three components produce significant change in development cooperation behaviour of donors. Several other countries had developed aid policies and were in the process of introducing overall targets for all providers or targets for individual providers. Yet, 55 surveyed countries had no aid policy or targets for donors in place. The 2011 Paris Declaration Monitoring Survey similarly finds that progress in rectifying the imbalance between provider and programme countries in their aid relationships remains very limited, despite some encouraging advances.

In addition, the involvement of parliaments, local governments and civil society in national mutual accountability processes remains disappointing in most developing countries. The lack of capacity for mutual accountability at country level also remains a challenge.

Many of these issues have been addressed in the past in the context of the DCF. This session aims to look specifically at one question that has become more pertinent in light of the evolving development landscape: How can mutual accountability mechanisms be made more inclusive and involve all relevant actors on the ground?

Many programme countries stress the importance of including aid exit strategies in national aid policies. They also consider that national mutual accountability mechanisms need to look at all development results (including those from trade, investments etc.). In this regard it is increasingly important to see how incoming non-aid flows are impacting national planning and budgeting processes to achieve the MDGs. In an enabling environment with strong accountability mechanisms and financial transparency, information on the use of aid and non-aid monies can strengthen domestic accountability, the participation of civil society in decisions on aid spending, and the oversight role of parliaments.

Even the most advanced mutual accountability processes face a challenge in engaging the full range of development cooperation providers into their discussions. This is particularly the case for providers who do not engage in general or sectoral budget support, notably non-DAC governments, global funds, NGOs or private foundations. Some countries have made progress in including non-general budget support (GBS) and non-traditional providers in their national performance assessment frameworks, focusing on disbursements, predictability, use of country systems, etc.

In regional workshops co-organized by the United Nations in Africa in early 2011, participants pointed to the importance of engaging non-DAC providers and non-state actors (civil society and private sector) in national mutual accountability processes, as vital partners in development. This would help programme countries to manage and coordinate development cooperation and improve transparency on programmes and resource utilization. The European Commission recently proposed the notion of 'country compacts' in which programme countries, based on multi-stakeholder consultations, agree on locally adapted priorities and targets with all their development partners, using existing local mechanisms for mutual accountability.[1] This could include non-OECD-member countries, the private sector and non-governmental organizations as providers.

Mutual accountability needs to build on the notion of local and domestic accountability. The quality of mutual accountability systems depends on the early participation of parliamentarians, NGOs and local governments in the development of aid policies and in sectoral/national mutual accountability fora.

Involving national parliaments in mutual accountability frameworks is considered important at two levels: (i) as agents for domestic and cross-party accountability and (ii) as parties accountable to other stakeholders for their part in the development process. On-going efforts to develop mutual accountability instruments for CSOs as well as strengthening oversight functions of parliaments should be supported and expedited.

This has to go hand in hand with a dramatic scaling up of programmes to reinforce the capacity of parliamentarians, local government agencies and civil society organizations on issues relating to development cooperation, and budget financing and expenditure.

At national level, all providers of development cooperation should share information on their development cooperation, especially on results and IADG progress as well as on future aid disbursements and conditionalities. This information is the principal tool for actors to engage in mutual accountability processes in a meaningful way. Providers should also support national aid information initiatives to track aid effectiveness targets and to ensure a wide range of timely information is accessible to non-executive stakeholders (especially parliaments).

Finally, much more effort is needed to connect international and national-level mutual accountability and transparency processes. Mutual accountability is a bottom-up approach where sectoral and sub-sectoral evidence and discussions feed into national, regional and global processes. Some international mechanisms provide useful information on provider and programme country comparative performance. These should be included systematically in the analysis presented to national mutual accountability forums.[2]

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[1] This proposal foresees the DCF as the platform to focus on strengthening global mutual accountability in its apex function.

[2] An expert group meeting on global mutual accountability mechanisms is held separately on 17 October back-to-back with the Luxembourg symposium.

The following questions may be addressed:

- To what extent have national mutual accountability processes produced major changes to make aid more effective? What were the compelling factors for such change? What are the key remaining policy challenges and gaps?

- Should country-level mutual accountability systems also review aspects beyond-aid? What challenges would this entail?

- Can all relevant providers of development cooperation engage in regular dialogue processes to assess their progress towards their development cooperation commitments? How can the programme country government keep ownership and leadership throughout such process?

- In what form should regular progress assessments and mutual learning exercises among stakeholders take place and which global/regional mutual accountability mechanisms are best positioned to facilitate this in future?

Session 4. Key messages from the Luxembourg High-level Symposium from stakeholder consultations and discussions

In this session, three groups (developing countries, donor countries and non-executive stakeholders including parliaments, civil society, local governments, and the private sector) will caucus separately and subsequently report on their discussions. Their discussions could focus on the following questions:

1. What standards must be kept to ensure that different types and modalities of development financing have a greater effect on poverty reduction and MDG achievement? What roles can aid play in specific areas as a catalyst for the "right kind" of development financing? What aspects of aid reform need to be prioritized for aid to achieve these roles? What are the risks of using aid as a catalyst and to which extent should these risks be taken?

2. How does the new funding landscape for development impact on aid management and coordination among different actors within programme countries? How should mutual accountability mechanisms at country-level be designed to reflect these changes to trigger a real change in the development cooperation behaviours of providers?

3. In light of the 2015 deadline to achieve the MDGs, what role should the DCF take to promote the dialogue on development finance and country level implementation of aid reform? What are key messages of the DCF Symposium for the Busan High-level Forum on Aid Effectiveness on these and other relevant issues?