

UNITED NATIONS ECONOMIC AND SOCIAL COUNCIL



REPORT OF THE FIRST  
DEVELOPMENT  
FORUM

COOPERATION

New York, 30 June – 1 July 2008

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## Introduction

As part of the efforts to strengthen the United Nations Economic and Social Council, Member States, at the 2005 World Summit, mandated the Council to convene a high-level biennial Development Cooperation Forum to review trends 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. The General Assembly, in its resolution 61/16, decided to launch the Forum in Geneva in July 2007 and to hold the first Forum in New York on 30 June and 1 July in 2008.

The 2008 Forum took place in a year in which the United Nations is involved in a broad range of actions to further the international development agenda. UNCTAD-XII, the High-level Event on the Millennium Development Goals and the Doha Review Conference on Financing for Development are all major United Nations processes and initiatives taking place in 2008. In addition, the High-level Forum on Aid Effectiveness in Accra (2 – 4 September 2008) will bring further attention to aid delivery and management and making development assistance work better for improving the lives of the poor. With these intergovernmental processes in mind, the deliberations at the Development Cooperation Forum particularly served to provide strategic input to the Doha Review Conference and the Accra High-level Forum.

The DCF particularly served to inform the Doha Review Conference and the Accra High-level Forum

The conclusion of the first Development Cooperation Forum represented the first decisive step in positioning the Economic and Social Council as a key venue for global dialogue and policy review of the effectiveness and coherence of international development cooperation. The 2008 Forum also reaffirmed the demand for an inclusive and universally recognized space for discussions on international development cooperation. By giving voice to a wide range of stakeholders, including civil society, parliaments, local governments and the private sector, the Forum gave promise of becoming an effective global platform for representative, participatory and multi-stakeholder dialogue on major development cooperation issues.

The next Development Cooperation Forum will be held in 2010. Stakeholders are encouraged to continue to engage in the upcoming consultations and to interact with the Council and the United Nations Department of Economic and Social Affairs to ensure that all voices are heard in the preparations for the Forum. The Department will also continue to provide impartial, professional and responsive policy analysis and review of gaps and obstacles to effective and coherent international development cooperation.

Impartial, professional and responsive policy analysis will contribute to success of the 2010 DCF

The present report is divided into five parts. In the first section, the President of the Economic and Social Council summarizes the substantive recommendations that emerged from the Forum. The second section recaps the main preparatory events, including their key policy messages. The Secretary-General's analytical background report is summed-up in the third section. The fourth section offers brief summaries of the five keynote addresses delivered at the Forum, while the fifth section provides a comprehensive account of the six high-level roundtables. In addition, the annexes provide an overview of the panelists and the annotated agenda.

The Development Cooperation Forum has benefited from generous financial and human resources support provided by the Governments of Austria, Denmark, Egypt, Finland, France, Germany, Italy, Japan, Switzerland and the United Kingdom.

## Official summary of the ECOSOC President

The official summary of the President of the Economic and Social Council reflects substantive recommendations on practical measures and policy options made at the Forum with a view of enhancing the coherence and effectiveness of international development cooperation:

### 1. Policy coherence

- *Mutually supportive policies* on trade, debt, investment, technology, climate change, food security and systemic issues are critical if development cooperation is to have a meaningful impact. This includes *policy coherence* across the core areas of the Monterrey Consensus, which constitutes the international framework for cooperation for development.

### 2. Aid commitments and aid allocation

- Meeting *aid commitments* is indispensable to the realization of the internationally agreed development goals (IADGs), including the Millennium Development Goals. Budget targets for annual increases through to 2015 need to be set for effective delivery of aid commitments;
- Aid allocation is not *adequately balanced* across countries and sectors and does not maximize progress towards the IADGs. Regular review is required to ensure that aid allocation is predictable, responsive to the *needs* of programme countries and oriented to maximize *development results*;
- More transparent criteria is needed for aid allocation *across programme countries*, based on multidimensional poverty indicators, structural vulnerability to exogenous shocks and development results;
- In terms of *sectors*, increases in aid should particularly support *agriculture* and *food security*, economic infrastructure and energy, and trade; all sectors crucial to sustained development and for which many programme countries have designed sector specific strategies; and
- In terms of *modalities*, *budget support* should be increasingly used as a preferred modality for delivering development aid due to its positive effects on national ownership, disbursement speed and use of national systems.

### 3. Towards consensus on the aid effectiveness agenda

- The aid effectiveness agenda should move towards broader agreement by setting *measurable targets* for untying aid, transforming technical assistance, reducing conditionality, maximizing concessionality, increasing multi-year predictability and improving flexibility to combat exogenous shocks;
- *Mutual accountability* processes at the country-level should be strengthened through defining good practice standards and reinforcing national capacity and leadership;

- The implementation of the Accra Agenda for Action will need to demonstrate that it is able to go *beyond commitments in principle and procedural changes* by producing real change in the behaviour of development actors with the objective of achieving sustainable development results; and
- Greater *transparency* on aid must be a key outcome of further strengthening the aid effectiveness agenda, by making all aid agreements, policies and data publicly available to facilitate scrutiny by parliamentarians and other stakeholders.

#### **4. Country-level capacities for coordinating and managing aid**

- Programme countries should develop effective *aid policies*, with donors supporting these efforts by intensifying capacity-building on aid analysis, policy, negotiation and evaluation of results;
- Concerns about *absorptive capacities* need to be resolved by joint comprehensive assessments of bottlenecks, including donor and programme country procedures; and
- *Capacity development* on aid policy should be further extended to a multitude of stakeholders, particularly parliamentarians, civil society and local governments.

#### **5. Country-driven national development strategies**

- Effective frameworks for guiding national development need to be developed through *inclusive processes*, involving all relevant stakeholders at the country-level;
- National development strategies, while entirely country-driven, also need to be *responsive* to the IADGs, including gender, the environment and human rights, with programme country strategies containing clear goals and action plans; and
- *Conditionalities* remain a key concern because of their impact on policy space and country leadership of development, as well as negative effect on aid predictability. Targets should be set for sharp reduction in such practices.

#### **6. Non-State development cooperation providers at the country-level**

- The IADGs, including the Millennium Development Goals, will not be achieved without strong involvement (including financing) by civil society, businesses, foundations and global funds. The comparative advantage of these actors is clear in terms of reach and efficiency, yet at the same time their efforts need to be *fully supportive of national priorities*;
- Development cooperation channeled through civil society organizations, global funds and the private sector needs to be *integrated into an enlarged aid quality framework*, which takes account of the particularities of these actors, while demonstrating clear effectiveness in achieving results. The engagement of these actors should be in conformity with the priorities of programme countries.

#### **7. South-South and triangular development cooperation**

- A process is needed to facilitate the *exchange of information and enhanced analysis*, through which other development actors can learn the positive lessons from South-South and triangular development cooperation, especially in technical assistance/capacity development, infrastructure, regional programmes and rapid delivery of development results; and
- Recognizing that South-South cooperation is a complement to North-South cooperation, these lessons could be used to arrive at more widely agreed *development cooperation practices and objectives*, to help programme countries access and use the best available assistance through a nationally-owned framework.

## **8. The Development Cooperation Forum should:**

- Further strengthen the *voice of all stakeholders*, including civil society, parliamentarians, private sector and local governments by supporting inclusive high-level dialogue on key development cooperation issues;
- Give due consideration to the *broad range of issues* which affect the effectiveness of development cooperation such as climate change, food security and policy coherence;
- Continue to provide *independent and high-quality analysis* of development cooperation issues and ensure a comprehensive and inclusive international debate on this agenda;
- Play a key role as an international *mutual accountability mechanism* that will draw together analysis of progress in national and global-level mutual accountability processes, and thereby contribute to holding donors and programme countries to account; and
- Focus its meeting in 2010 on playing an instrumental role in developing a more *inclusive framework* for guiding effective development cooperation, taking into consideration the concerns of stakeholders.

# Preparing for the 2008 Development Cooperation Forum

## Launch of the Forum (July 2007)

The formal launch of the Development Cooperation Forum was marked by a half-day event during the high-level segment of the Economic and Social Council on 5 July 2007. Secretary-General Ban Ki-moon and the President of the Economic and Social Council Dalius Čekuolis participated in the opening plenary session during which Member States noted that a clear definition of the goals, direction, priorities and modality of the Development Cooperation Forum would be essential to its success as the only recent United Nations mechanism to comprehensively review international development cooperation. It was emphasized that the Forum should maintain a distinct identity while helping improve the governance, effectiveness and impact of development cooperation for the achievement of the internationally agreed development goals (IADGs).

The absence of consensus on a conceptual framework for 'aid effectiveness' was recognized as a major obstacle to achieving sustainable development results. In addressing this, the Forum should promote a common understanding for effective aid delivery building on the principles of the existing framework for aid effectiveness. At the same time, the framework was seen as a useful beginning which would require further elaboration of established indicators and benchmarks as well as a more comprehensive scope to ensure mutual accountability and equal responsibility. The questions of *where*, *when* and *how* aid can be most effectively applied should guide the work of the Forum since answering these questions are necessary for building and maintaining political support for development assistance from donors.

As part of its mandate, the Development Cooperation Forum should stress the role of the Council as the policy coordination body of the United Nations for economic, social and environmental matters. The Forum could thus become an important coordination and cooperation mechanism in a context of multiple development actors, in particular considering its advantage in bringing together a wide variety of stakeholders to promote closer partnerships among different development actors. The universal membership, neutrality and political independence of the United Nations will contribute to the Forum playing a unique role in this area.

The plenary session was followed by two simultaneous roundtables discussing the role of national aid coordination and management in promoting greater coherence among development activities of different development partners and recent trends in South-South and triangular cooperation. Following the roundtables, a stakeholder plenary was convened to debate how the Development Cooperation Forum could promote enhanced oversight of aid commitments and aid effectiveness for the realization of the IADGs.<sup>1</sup>

The DCF should be guided by questions of *where*, *when* and *how* aid is most effective ...

... and could become an important coordination and cooperation mechanism serving multiple development actors

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<sup>1</sup> For more information please visit: [www.un.org/ecosoc/newfunc/dcf/launch.shtml](http://www.un.org/ecosoc/newfunc/dcf/launch.shtml)



## Vienna High-level Symposium (April 2007)

### Background

Bringing country-level experiences to the fore is one comparative advantage of the DCF

To facilitate dialogue among stakeholders at the 2008 Development Cooperation Forum, the Department of Economic and Social Affairs supported the organization of several nationally-led high-level symposiums as part of the preparations for the Forum. The first High-level Symposium, organized in cooperation with the Government of Austria, was held in Vienna, on 19 and 20 April 2007. The theme of the Vienna High-level Symposium was “*Country-level experiences in coordinating and managing development cooperation*”.

The objective of the symposium was to examine progress, identify key challenges and discuss good practices by donors and programme countries in implementing some of the policy goals established at the 2005 World Summit and the International Conference on Financing for Development, held in Monterrey, Mexico, in 2002, as they relate to the coordination and management of development cooperation at the country level.

### Key policy messages

The following key policy messages emerged from the Vienna High-level Symposium:

#### *Driving the national development process*

- Genuine national ownership means that developing countries lead in partnership with donors. Ownership is not simply agreeing to the terms and conditions of development cooperation established by donors, it is actively taking charge of defining the framework and process for cooperation;
- National development strategies are the principal vehicle for advancing the implementation of the internationally agreed development goals at the country level. The strategies, which sometimes err on the side of aspirations, should first and foremost be realistic at their outset;
- Participation of non-State actors in the formulation and implementation of national development plans is critical for the credibility, impact and sustainability of the development process. Governments should not limit participation in policy dialogue processes to like-minded stakeholders, but benefit from a broad range of perspectives;

#### *Building capacities for leadership*

National donor offices need the competencies to act as credible counterparts to national governments

- Ensuring national capacities for designing and implementing aid management strategies is a prerequisite for the leadership of partner countries in the aid partnership. National donor offices should have the required competencies to act as credible counterparts to national governments;
- The classic development cooperation mindset of “North-South” is no longer an option. South-South and triangular cooperation offer viable alternatives in supporting developing countries to build national capacities, including the development of aid policies.



### *Ensuring public scrutiny*

- Development partners need to relate to each other as equals and be expected to live up to agreed frameworks and commitments in respect of development assistance. National stakeholders should increasingly be empowered to hold governments accountable for the impact of aid;
- Monitoring of aid quality and impact is an area where donors wield a particularly strong influence over partner countries. Monitoring should reflect the fact that governments are ultimately accountable to their citizens. More effective dissemination of the expectations of development assistance is key to enabling the public to play a constructive role in aid monitoring;

For the public to play a constructive role in aid monitoring, expectations need to be clearly communicated

### *First steps towards better aid*

- Agreements on donor harmonization are equaled by an increasingly fragmented presence of donors in many countries. Increased cooperation may provide a first step in furthering harmonization, while competition among donors may also prove an option in some cases;
- Donor countries should be observant of meeting aid commitments in a predictable and stable fashion. Predictable and stable funding is of particular importance to weak States that may nevertheless have the bleakest outlook in terms of conduct and performance;
- Achieving the Millennium Development Goals would have to include adequate aid and investments in productive sectors vis-à-vis the social sectors. With regard to development effectiveness, the nature and pattern of economic growth is as important as the rate of growth.

## **Cairo High-level Symposium (January 2008)**

### **Background**

The second symposium, organized in cooperation with the Government of Egypt, took place in Cairo, on 19 and 20 January 2008. The theme was “*Trends in development cooperation: South-South and triangular cooperation and aid effectiveness*”. The Cairo High-level Symposium aimed at improving the understanding of key trends and challenges in international development cooperation by providing an inclusive venue for constructive dialogue among multiple stakeholders. More specifically, the meeting first explored the prospects of broadening the current agenda of making aid more effective, based on principles such as national leadership and mutual accountability. Second, it examined the current practices and future prospects of conditionality. Third, the symposium sought to elicit a better understanding of the principles and priorities that guide South-South and triangular development cooperation.

The DCF aims to strengthen the voice of developing country actors in the global debate on national leadership and mutual accountability

Reflecting on the impact of international development cooperation, the symposium made clear that enhancing the coherence and effectiveness of the aid architecture will require reform of international financial institutions, in particular by enhancing the voice and representation of developing countries. Progress will also

Consistent and coherent donor policies across government portfolios are needed to exit aid

depend on consistent donor policies in areas such as development, trade and investment, as well as coherent policies across government portfolios in order to provide programme countries with better possibilities of exiting aid dependency.

### Key policy messages

The following key policy messages emerged from the Cairo High-level Symposium:

#### *Broadening the aid effectiveness agenda*

Programme country leadership in mutual accountability processes is limited

- National ownership will not take place without adequate domestic capacities, yet there are currently few incentives for individual donors to go beyond coordinating technical cooperation to contribute towards that goal;
- Programme countries need to assume more ownership of the quality of the aid agenda by leading the design of instruments for assessment and measurement;
- Mutual accountability processes are too often donor-led with little to support them in terms of programme country input and leadership. The primary accountability of donor and programme Governments should be to their respective parliaments and public sectors;

#### *Practices and prospects of conditionality*

- Conditionalities regularly fall short either by failing to influence policies or by actually influencing policies but in a disruptive manner; they have undermined the development of domestic planning and policymaking capacities in programme countries;
- The use of outcome-based conditionality has contributed to enhanced focus on achieving development objectives and improved policy dialogue between donor and programme countries, yet experiences suggest methodological difficulties in assessing its impact;
- Elimination of conditionality in multi-donor budget support groups will be difficult to achieve if such initiatives are not led by the larger donors; as long as the larger donors insist on conditionality, donors willing to move beyond non-reciprocal relationships with programme countries will face challenges;

#### *Principles and priorities of South-South cooperation*

Responsive South-South cooperation offers lessons for other development actors

- The growing volume of South-South development cooperation is significant, yet the responsiveness of such support is an even more important feature. There is scope for traditional North-South development cooperation actors to emulate some of the successful principles of South-South cooperation;
- With a growing number of developing countries cooperating with each other, it is vital to identify a suitable and practical mechanism or mechanisms to propel this alternative approach forward and to coordinate efforts in a more structured manner.
- Yet the support from the international community for South-South cooperation, particularly at the operational level, is sometimes wanting. Since it

is exceedingly difficult at times for national actors to engage with partners from the South, regional and international aid agencies should enhance the visibility of mechanisms to connect developing countries with regional and international actors.

## Rome Stakeholder Forum (June 2008)

In addition to the high-level symposiums in Vienna and Cairo, a multi-stakeholder meeting took place in Rome, on 12 and 13 June 2008, in order to include a wider range of stakeholders in the preparations for the Development Cooperation Forum. The theme of the Rome Stakeholder Forum, organized in cooperation with the Government of Italy, was “*The role of national and local stakeholders in contributing to aid quality and effectiveness*”. The discussions and policy messages captured below informed the discussions at the 2008 Development Cooperation Forum and they are further expected to serve as a cornerstone for engaging stakeholders in the process leading to the 2010 Forum.

Parliamentarians, local governments and civil society are key stakeholders of the DCF

The Rome Stakeholder Forum engaged parliamentarians and representatives from civil society and local governments in an open and interactive dialogue on their roles in contributing to effective development cooperation. Held in partnership with the Inter-Parliamentary Union, United Cities and Local Governments, CIVICUS and ActionAid, the one-and-a-half day meeting focused on the critical role these actors play in guiding, managing and monitoring development cooperation.

The meeting was organized around a series of parallel sessions discussing the role of national and local stakeholders in aligning aid with national development strategies; reforming conditionality and tied aid; and assessing the impact of different aid modalities such as general and sector budget support. Deliberations by each stakeholder group were followed by a plenary session which enabled all groups to articulate and discuss their specific views and positions on the various issues while also acknowledging the need to coordinate their respective roles at the local level, as well as in a global context.

## Key policy messages

The following policy messages emerged from the plenary sessions of the Rome Stakeholder Forum

### *Institutionalizing multi-stakeholder development cooperation dialogue*

- Interaction among parliamentarians, local governments and civil society is essential to maximize their role in contributing to aid quality and aid effectiveness;
- National development strategies should be formulated through wide-reaching and institutionalized nationally-led dialogues involving these actors;
- Engaging these actors may take various forms, including testimony to parliamentary committees and hearings, whistle-blowing to auditing institutions and their inclusion in participatory evaluations;

National development strategies should be formulated through institutionalized and wide-reaching dialogues

### *Ensuring ownership and comprehensive mutual accountability*

- True ownership does not only mean ownership by developing country governments, but must engage all relevant stakeholders such as parliaments, local governments and civil society in the development process;
- Policy conditionality and tied aid obstruct democratic ownership and development effectiveness. When conditions are applied they should always be fully owned by programme countries, i.e. derived from a nationally-led consultation process;
- Building the capacities of stakeholders in programme countries is key to enabling their playing a role in overseeing aid quality and aid effectiveness;
- Transparency and access to information from both donor and programme countries are also essential prerequisites for democratic ownership and the success of the development compact. The responsibilities and commitments of both donors and programme countries should be clearly set out in transparent aid compacts premised on mutually agreed upon values such as accountability and sovereignty;
- Mutual accountability is by definition multi-dimensional. For donor countries this implies that in addition to accountability towards their citizens, they also have a responsibility to people in developing countries by providing aid in a manner which enables programme countries to take full advantage of the resources;

Donor and programme countries should provide access to transparent information on aid

### *Delivering high-quality aid*

- The first priority when delivering aid should be to ensure that it reaches people who need it the most in developing countries. The second priority is to make sure that aid is delivered using the most appropriate aid modality;
- Budget support should in principle be the favoured aid modality since it affords greater country ownership as well as more direct oversight; nevertheless it continues to represent a small proportion of aid. On occasion, project support may be useful particularly where budget processes are flawed in some countries or where specific needs exist;
- All forms of aid should be on budget and subject to parliamentary oversight;

Budget support affords greater country ownership and more direct oversight

### *Added value of the Development Cooperation Forum*

- As a multi-stakeholder forum involving (local) governments, parliaments and civil society, the Forum should work to become the key venue at the multilateral level for discussions of development cooperation;
- It should aim to increase policy coherence and set the agenda for aid effectiveness by ensuring that issues not adequately dealt with in the Paris Declaration are discussed. It should also strive to complement the existing structures of the Development Assistance Committee of the Organisation for Economic Co-operation and Development and the Financing for Development process.

## Secretary-General's analytical background report

As part of the preparations for the 2008 Development Cooperation Forum, the Department of Economic and Social Affairs also conducted a number of background studies to review trends and progress in international development cooperation with particular emphasis on identifying gaps and obstacles to enhancing its coherence and effectiveness. These studies served to inform the analytical background report of the Secretary-General that was submitted for consideration by the Forum, in accordance with General Assembly resolution 61/16.

The report also builds on discussions that took place at the official launch of the Forum at Geneva on 5 July 2007, at the nationally led high-level symposiums held in Vienna and in Cairo as well as the deliberations that shaped the Rome Stakeholder Forum. The main findings of the report are that:

(a) Despite progress in some areas of the global partnership for development, agreements on trade and investment as well as on the participation of developing countries in international economic decision-making are not living up to expectations. Overall, progress has not been sufficient to ensure that development cooperation will produce rapid progress towards the realization of the internationally agreed development goals (IADGs), including the Millennium Development Goals;

Impact of aid curbed by lack of progress in other areas of the global partnership for development

(b) Official development assistance, excluding debt relief, has grown at less than half the rate needed to reach the Gleneagles target of \$130 billion by 2010. Most donors are not on track, and most are not planning sufficiently far ahead to meet their targets. Meanwhile, increased flows from sources not part of the Development Assistance Committee of the Organisation for Economic Co-operation and Development are helping to diversify financing while also adding to the complexity of international development cooperation;

(c) Aid allocation is not sufficiently conducive to the achievement of the IADGs. While a higher proportion of aid is going to the poorest countries, allocations are often not adequately based on needs, results or the vulnerability of countries 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. Moreover, development cooperation in the form of budget and sector support is growing only slowly;

Aid allocation not helping in full towards the internationally agreed development goals

(d) The adoption of the Paris Declaration on Aid Effectiveness marked a step change in the articulation of benchmarks for progress, yet negotiations did not engage the full range of stakeholders. Moreover, the Declaration did not deal with a number of issues of key concern to programme country Governments (including conditionality), as well as issues emphasized by other stakeholders, including parliamentarians and civil society (for example accountability and transparency). Primarily occupied with monitoring aid delivery, the Paris process has not demonstrated genuine ability to change behaviour of development actors or to link the aid effectiveness agenda with sustainable development results;

(e) The capacities of programme countries to coordinate and manage aid are growing, with improvements in public financial management, procurement and recording, but major gaps remain in terms of analytical, policy, strategic and evaluation capacities, which receive the least support. Most capacity-building has focused on core ministries, with limited attention to the needs of parliaments, auditors and civil society;

Selective alignment with the  
internationally agreed  
development goals

(f) The mainstreaming of the IADGs into national poverty reduction strategies and aid policies of donors is selective. These policy instruments also prioritize a selective Millennium Development Goal agenda of economic growth for reducing income poverty, social investment and good governance, including the rule of law, while many give little consideration to the broader agenda of equity, pro-poor growth, employment, hunger and democratic governance;

(g) South-South and triangular cooperation is a growing dimension of international development cooperation, playing a complementary role to traditional bilateral and multilateral aid. Almost all South-South development cooperation is in the form of project finance and technical assistance with little or no conditionalities attached. Around two-thirds of South-South development cooperation is provided as loans on concessional terms in line with programme country policies and therefore carrying less risk of making debt unsustainable.

## 2008 Development Cooperation Forum

### Léo Mérorès: “DCF to serve as mutual accountability mechanism”

The President of the Economic and Social Council opened the 2008 Development Cooperation Forum by emphasizing that without national ownership there will be little progress towards sustainable development. Similarly, financial and technical assistance will have a clear impact only if aligned with national priorities. Programme countries need policy space to formulate and pursue their priorities, guided by the internationally agreed development goals, including the Millennium Development Goals. Many programme countries, however, still have only limited capacities for driving their development process.

Programme countries need policy space to formulate and pursue priorities

The establishment of the Development Cooperation Forum is a significant step in guiding development cooperation towards the realization of the global partnership for development. With the target date for the achievement of global development goals approaching, the Forum will also serve as a powerful new mechanism to promote mutual accountability of development partners on commitments made to advance these goals.

Through its inclusive participation, broad ownership and interactive discussions, the Development Cooperation Forum will have a special niche in the international aid architecture. The voice of the Forum will have a special legitimacy, anchored in the rich set of views and perspectives of different development actors. Furthermore, the sharing of experiences of how development cooperation works (and does not work) at the country-level will bring attention to the existing and emerging challenges facing the international development community as well as provide useful lessons on how to move ahead.

### Ban Ki-moon: “Poor punished by lack of action”

The Secretary-General of the United Nations highlighted the worrying trends in the global economy, among them exceedingly high food and energy prices, which add impetus to the already urgent need to strengthen the global partnership for development. An essential demonstration of commitment would be for donors to scale-up aid in accordance with international targets. This should be done in a predictable manner, through increased budget support, which will enable multi-year planning by programme countries.

Another significant global trend has been the enhancement of additional sources of development cooperation, especially South-South cooperation and private philanthropy. However, the international community is still coming to terms with how best to ensure balance and coherence, while making the most of the new opportunities that the changes in international development cooperation have to offer.

International community grappling with ensuring balance and coherence in new aid environment

In outlining a number of urgent challenges facing development cooperation, the Secretary-General emphasized that aid continues to be burdened with conditionalities, which undermine national autonomy, lead to distortions in aid allocations and have a poor record in improving economic performance. Another obstacle is that development assistance does not always go where it is most needed. Some countries enjoy the attention of the international community, while others find it harder to attract funding.



Similarly, at the sectoral level, recent years have seen decreasing levels of aid for economic infrastructure and production as well as agricultural aid.

### **Louis Michel: “Principles of the Paris Declaration are being undermined”**

Increasingly complex aid  
industry affecting public and  
political support

The European Commissioner for Development and Humanitarian Aid noted that the European Union shouldering the lion's part of increases in international aid is proving increasingly difficult with public opinion. This particularly owes to the proliferation of donors, emergence of new players, complexity of the challenges and an alienating bureaucracy based on increasingly out-of-touch rules and procedures which have led to a technocratic downgrading of assistance, lacking sound political support.

Contrary to the principles of ownership and alignment proclaimed in various international conferences, development aid is increasingly fragmented. This is unacceptable, especially given that all donors have signed the Paris Declaration, which provides a clear framework for a change of approach. More than a stock-taking exercise or a mid-term review, the Accra High-level Forum on Aid Effectiveness is a test of credibility, which should be characterized by candour and political engagement.

With the Paris Declaration in mind, four essential conditions need to be in place in order to succeed in enhancing the effectiveness of aid:

- Division of labour;
- Use of country systems, including budgetary, sectoral and general aid;
- Results-based management which includes limiting conditions that curb the autonomy of governments;
- Predictability of aid.

The Commissioner concluded by advocating for policies that increase the productivity and sustainability of production in the agricultural sector. In this context, a number of controversial issues need to be clarified, such as the appropriateness of and conditions for the promotion of biofuels. Similarly, the 'ideological block' in terms of genetically modified organisms should be addressed.

### **Trevor Manuel: “Food, fuel and financing cause for concern”**

Insufficient action on aid  
further hampered by rising  
costs of food, fuel and  
financing

The Minister of Finance of South Africa and Special Envoy for the Follow-up International Conference on Financing for Development stressed that the global partnership of the Monterrey Consensus rests on two pillars. First, sustainable development relies on sound policies and governance, which historical inequities are no basis for rejecting. Second, the implementation of those policies calls for greater financing for development.

Holding countries to account at the Doha Conference to review the implementation of the Monterrey Consensus will be difficult since increases in costs of food, fuel and finance have hampered already insufficient action to meet commitments. In recognition of the lack of accountability mechanisms associated with the Monterrey Consensus, Member States should instead jointly define a series of measures to put their efforts back on track to meet the goals established in 2002. One option would be for

donors to adopt rolling, multi-annual indicative timetables that illustrate how aid targets will be reached.

Changing the landscape of development cooperation should also be achieved through strengthened governance, at both national and global levels. The objective needs to be a framework in which the impact of a dollar spent in a programme country can be measured against a dollar spent in a donor country. The results of these expenditures should be equaled across a common and universally acknowledged unit of account.

The impact of a public dollar spent should be comparable across all countries

### **Supachai Panitchpakdi: “Additionality key principle for aid”**

The Secretary-General of the United Nations Conference on Trade and Development emphasized that responding to emerging crises (such food and energy) and the establishment of new and specialized funds should not undermine financing of other areas of development. Research shows that for donors who provide less or around average levels of aid, there is no clear correlation in terms of ‘additionality’, whereas donors that give more than average provide less additional funding. One approach to generating new funds for combating climate change could be to establish an adaptation fund which would be financed by auctioning off carbon emissions quotas to countries wishing to emit carbon dioxide.

Donors that give more than average provide less additional funding

Rather than focusing on aid effectiveness, development effectiveness should take center stage. In order to achieve development effectiveness, aid must generate growth since otherwise there will be no capacity to reduce poverty. In this regard, sectoral aid to capital formation in productive sectors and infrastructural investment adds value, income and productive capacity. Nevertheless, aid does not go to countries that have low investment relative to gross national income. Similarly, there is no correlation between the need for social infrastructure and the level of aid.

Aid does not go to countries with low level of investments

Touching upon managing and coordinating aid at the country-level, the Secretary-General noted that while the international community is increasingly recognizing that different circumstances and needs require different approaches, this has also led to a larger degree of complexity in the aid environment. Similarly, new development actors produce tangible results while at the same time posing challenges of sector-wide improvements in programme countries.

## High-level roundtables

### *Roundtable 1*

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

##### **No need to revisit the iron cage**

The objective of aid is to help ordinary people escape poverty on a sustainable basis in countries that are poor and slow growing. These countries typically have a desperate shortage of proper wage employment which pushes far too many unsuited people into the role of being petty entrepreneurs. The structure of economic activity in any industrialized society shows that given a choice most people opt for wage employment rather than self-employment. Aid should accordingly be focused on unblocking the limitations to private sector development and to employment in the private sector.

In addition to the creation of jobs, ordinary people depend on the provision of basic social services. With regard to how basic social services should be provided, the image of Europe in the 1950's is often evoked as the ideal. In those years, a number of countries were characterized by self-motivated publicly employed workforces who internalized the goal of providing social welfare with little need for close monitoring or high remuneration. However, in societies where these conditions are not present, the model does not work. This also begs the question of whether the model is appropriate for any country in today's world.

Multiple channels of delivery  
should complement public  
provision of social services

What is needed is a radical leap away from thinking of Europe in the 1950's. The attempt to recreate the image of the noble public sector workforce is a dishonest exercise of wishful thinking. Instead, it was felt by some that the international community needs to increasingly move to a different architecture of non-public provision of social services, using multiple channels of delivery financed by public and private money with close monitoring and high-powered incentives. Experiences show that thinking of development as a trajectory, following one model of progress, will not bring about expected and desired changes.

##### **Aid based on needs and delivered in accordance with capacities**

The effectiveness of aid  
modalities should not decide  
where aid goes

The question of where aid should go is often confused with the question of how aid should be provided, that is, the modalities by which it should be delivered. As a result, the allocation of aid is often based on an assessment of the modality by which it is delivered. Instead, aid should be allocated in accordance with needs and the selection of the most appropriate aid modality should be of secondary concern. While governance indicators play a predominant role in deciding the envelope for each country, the quality of public administration and governance should rather be an essential element in the choice of aid modality.

Structural economic vulnerability should play an increasing role in determining the allocation of aid. Introducing the aspect of vulnerability would provide equal opportunities and compensate for structural disadvantages, such as the inability of small states to reap advantages of scale in social service delivery. In addition, it increases the effectiveness of aid in countries that are vulnerable to shocks, helping attenuate the negative effects of such shocks. The economic vulnerability index established by the

United Nations Committee for Development Policy could be extended from its current use of identifying least-developed countries to also be used as a criterion for aid allocation.

Similarly, exceptions to trade rules by the World Trade Organization build on this system of classification. The current classification, however, does not differentiate between different development needs. Privileged access is therefore not necessarily granted to countries that are not established in global manufacturing. A refinement of classification should apply for the trade rules of manufacturing.

At the same time, middle-income countries are apprehensive that increasingly selective aid will exclude large swathes of poor people in these countries from much needed assistance. This is of particular concern since middle-income countries are also severely affected by the price increases in oil and food, indebtedness, limited exports and agricultural subsidies in developed countries.

### Budget support to leverage good performance

Aid is reasonably well-delivered in countries with an effective and capable state, yet good delivery models for countries with weak state capacity are hard to come by. Applying the same model of aid delivery in both scenarios will only yield results when state capacity exists. The current donor response is to reinforce efforts when they produce results while scaling back in environments where aid does not produce the expected outcome. Hence countries with relatively stronger public administration attract more aid while those with weak capacities receive less.

In reasonably capable states, aid is provided most effectively using budget support. In addition to promoting national ownership of the development process, budget support eliminates the need for large in-country aid programme and it is therefore also a simple mechanism for donor harmonization. Yet countries with good budget systems do not necessarily receive more budget aid. Following the same logic regarding capable states, debt relief under the Heavily Indebted Poor Countries Initiative (HIPC) should not be extended to countries with the weakest capacities since this is tantamount to offering budget support.

At present, a mechanism to reassure that budget systems are suited for budget support does not exist. To avoid moral hazard the assessment of budget systems needs to be separated from the agencies providing the resources. One approach would be to establish an international independent certification system to assess whether budgetary processes are satisfactory for large budget support. Three separate processes would be needed:

- Capacity development efforts for building budget systems;
- Certification mechanism to certify budget systems;
- Large-scale budget support to countries that have satisfactory certification systems.

### Responding to realities on the ground

Structurally insecure environments need the use of finance to be extended to insurance against vulnerability. Aid also needs to be extended to provide insurance for real

Effective ways of delivering aid to weak states are hard to come by, ...

... whereas capable states call for budget support

An independent international certification system is needed to vet budgetary processes

security. In this connection, the rationale for the United Nations to separate entirely the financing of peacekeeping and development, with no possibility of allocation between these roles, is questionable. Instead, it was felt that the 0.7 target should be increased and include resources for international peacekeeping, allowing countries to count international peacekeeping towards their development efforts. Finally, development assistance needs to be more responsive to changes in circumstances, in particular:

Aid needs to be more responsive to political changes, strategic opportunities and changes in prices

- *Political changes*: Reforming governments in the poorest situations should be able to immediately call on substantial and rapid technical assistance followed by scaled-up financing;
- *Strategic opportunities*: Focusing overly on short-term poverty needs may divert attention from needed improvements in areas such as infrastructure. While long-term development is important, the long-term is nevertheless dependent on also addressing short-term challenges, for example protecting urban poor from increases in food prices;
- *Changes in prices*: Post-conflict situations typically mean construction booms followed by acute increases in construction costs. Donors need to consider redesigning projects to accommodate such fluctuations and build this into decision-making processes.

### Whole-of-government approaches

Governments have done a poor job of using whole-of-government approaches

As an important measure in achieving development effectiveness, whole-of-government approaches go beyond looking at aid as the only development policy and recognize the wide range of policy options available. Governments have often done a poor job of coordinating across different departments and ministries, in particular in terms of fighting hunger. Development efforts in this area are weakened by food policies which have been captured by sectional agricultural interest in developed countries resulting in policy distortions.

## Roundtable 2

### South-South and triangular development cooperation

#### Pursuing different approaches

A key principle of South-South cooperation is non-intervention in the internal affairs of partner countries, which underlines the credo that South-South cooperation constitutes an additional option, not an alternative, to North-South cooperation. While developing countries emphasize the absence of conditionality, donors point to the trinity of governance, stability and peace in programme countries in achieving sustainable development results.

While developing countries have focused primarily on productive sectors and infrastructure development, DAC-donors<sup>2</sup> have followed the Millennium Development Goals closely and allocated most of their resources directly to poverty reduction. Greater

<sup>2</sup> Members of the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD).

convergence between South-South and North-South approaches to development cooperation will remain elusive as long as the impact on economic growth is not assured by the expansion of South-South cooperation into social sectors.

### Tenets for effective South-South and triangular cooperation

Successful South-South cooperation rests on equality, mutual benefit and credibility through delivering on commitments. The close ties of many developing countries as well as similar economic situations and shared understanding of the development policies needed in their respective contexts contribute to effective South-South cooperation. It allows developing countries to address common objectives, agree jointly on partnerships and take advantage of the experience of peers at similar levels of development.

South-South cooperation also offers flexibility in terms of programming and agreeing on terms and conditions of financing, without conditionality. However, as in North-South cooperation it is imperative that programme countries show leadership by defining priorities and needs. Tenets for effective South-South cooperation include:

- Respecting sovereignty of programme countries;
- Adapting good practices to the specific conditions of individual countries;
- Starting out small with projects and programmes;
- Bringing the comparative advantage of different development actors to bear (e.g. financial resources of developed countries and appropriate technologies and low costs of developing countries;
- Using in full existing authoritative cooperative mechanisms, such as the United Nations.

Effectiveness of South-South and triangular cooperation also rests on national leadership

In addition, South-South cooperation should contribute to safeguarding the common interests of developing countries. These countries should take an active part in formulating international economic, financial and trade rules, exerting more influence in international affairs and decision-making and seeking greater policy space for their development. As developing countries grow in strength, they should also increasingly engage in South-South cooperation with regard to trade, investment, science and technology, infrastructure, health and education. Finally, developing countries should enhance coordination and make effective use of multilateral mechanisms.

### Learning from countries that are learning

South-South and triangular cooperation is an integral part of international development cooperation and efforts to help developing countries achieve sustainable growth, stable development and becoming less dependent on external aid. These forms of cooperation are also beneficial in terms of enhancing the capacities of source countries by learning from supporting and guiding others.

Dialogue on aid effectiveness is encouraged with Southern contributors, in particular in the pursuit of better development outcomes by improving aid transparency, debt sustainability, environmental considerations, human rights and governance. Collaboration between different development actors could provide good practices for

Scope for new financial instrument to support capacity development between South-South cooperation actors

the development of international rules on capacity building through harmonized development cooperation. In particular, there is scope for establishing a financial instrument to support capacity development between partners in South-South cooperation.

### Creating awareness of what works

Further analytical and statistical work will benefit South-South and triangular cooperation

There is need for further analytical and statistical work on South-South and triangular cooperation, in particular clearer data through disaggregating various components such as technical cooperation, trade, etc. In this regard, the Secretary-General's analytical background report provides a starting point in terms of available data.

In addition, evaluation of South-South and triangular cooperation is needed in order to improve transparency and enhance independent management of development cooperation by programme countries. It would also be useful to further expand the knowledge of instruments and practices for evaluating the impact of these forms of cooperation with regard to poverty alleviation.

South-South cooperation may benefit from enhanced coordination

A mechanism should be contemplated to coordinate South-South cooperation among developing countries, in particular to create more awareness and better match the needs of programme countries with the opportunities offered by other developing countries. On the other hand, there is opposition against engaging in policy dialogues to coordinate and harmonize development cooperation at the country level, in particular since these are assumed to build on the existing work and terminology of the OECD/DAC. In this regard, the term 'emerging donors' should be confined to describe members of OECD which are not members of OECD/DAC.

### The role of the United Nations

The United Nations system is an important actor in coordinating and supporting South-South and triangular cooperation, including at the country level. The Special Unit for South-South Cooperation within the United Nations Development Programme should have adequate technical and financial resources to serve this purpose. Similarly, South-South and triangular cooperation should be mainstreamed in the operational activities of the United Nations development system, in accordance with the recent mandate provided by the General Assembly.<sup>3</sup>

With development policies invariably marked by politics, deeper political dialogue on development issues is often avoided. The Development Cooperation Forum, however, is particularly suitable for engaging participants in such discussions, including South-South and triangular cooperation. At the same time, the Forum could become a principal venue for developed countries to better understand the needs and priorities of developing countries. The Development Cooperation Forum also has a role to play in monitoring and evaluating international cooperation and the fulfillment of aid commitments.

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<sup>3</sup> General Assembly resolution 62/208: "Triennial comprehensive policy review of operational activities for development of the United Nations system",



### **Roundtable 3**

## **How are civil society and new actors enhancing impact at the country-level?**

### **Reaching remote and deprived populations**

The main comparative advantages of civil society, businesses and new actors in providing and contributing to development cooperation at the country-level lie in research, capacity building and innovation. In reaching remote and deprived populations, these actors often achieve an impact in a way that governments are not always capable of.

Civil society organizations, for example, play an essential role as service providers and as agents for advocacy and information dissemination due to their proximity to local communities. The added value of these organizations is particularly attributed to their ability to take greater risks than government entities thereby increasing the number of available policy options. For the same reason, governments should increasingly leverage the resources of civil society in terms of innovative ideas.

Multistakeholder dialogue between civil society, the business community, local governments, parliamentarians and government is essential in order to focus development efforts and to ensure alignment. Meanwhile, civil society also plays an important oversight role by providing feedback to government in terms of monitoring and evaluation of development policies and acting as watchdogs by denouncing undemocratic practices, human rights violation and inefficient public expenditures.

Multistakeholder dialogue at the country-level is essential in order to focus development efforts and to ensure alignment

### **Challenges in working together**

The voluntary nature of funding compels non-profit organizations to be more focused on actual service delivery than most government entities. The nature of contributions to these organizations further suggests a strong incentive to improve results in order to secure continuous funding. However, the lack of accountability and transparency of the activities of non-profit organizations and how they allocate funds are causes for concern.

In terms of attracting staff, non-profit organizations benefit from less competitive salaries in the public sectors in many programme countries to the detriment of building and sustaining national capacities. These organizations should therefore approach internal staffing decisions as an extension of their capacity-building goals and they should seek to enhance local-level expertise on a non-competitive basis.

Despite good intentions, non-profit organizations are often short of the technical knowledge to engage constructively with governments and donors in policy formulation and finance. In addition to limited technical and analytical skills, lack of coordination among different groups and of information in rural areas, which constrain participation in decision-making processes, also hamper the impact of civil society.

Result-oriented focus of NGOs, but limited accountability and transparency of activities

### **Engaging the private sector**

Similar to civil society, the private sector plays a key role in development cooperation. Net private capital flows to developing countries reached more than \$1 trillion in 2007, dwarfing development aid. More than simply bringing in direly needed funds, businesses

Aid dwarfed by net private capital flows to developing countries

also enhance implementation capacity by increasing project management skills, construction expertise and the ability to efficiently run and maintain operations. Further advantages include training, growth in small- and medium-sized enterprises, improved investment climates and social investment. Although some tools exist to document the development impact of the private sector, they primarily serve to inform business decisions.

Commercial viability is  
necessary if the private sector  
is to contribute to  
development

The private sector may support development either through core business activities, generating employment and wealth, or through targeted social investment funds which specifically address development needs. Traditionally, development activities have been performed as a separate activity, but sufficient scale can only be achieved if these activities are associated with the core business of enterprises. Policy-makers need to understand that private sector involvement will only be sustainable and scalable if enterprises are able to combine development with commercial viability.

One approach in respect of agriculture is to implement programmes that allow large companies to source from small farmers which have traditionally been side-lined in the global value chain. This leverages the potential of trade for the benefit of the poorest. Another example is the Affordable Medicines Facility for Malaria which takes advantage of the pharmaceutical industry applying segmented pricing to make malaria treatment affordable to the poor.

Public-private partnerships are essential in complementing the work of governments and play a crucial role in both governance - by elevating links with affected populations to an institutional level - and in implementation - by targeting resources and investments to the strengthening of community systems. One reason the Global Fund to Fight AIDS, Malaria and Tuberculosis has become the predominant multilateral supporter of programmes fighting the three pandemics is because it relies on partnerships between civil society and governments in both policy design and implementation. For these partnerships to flourish, shared learning of both good and especially bad experiences is needed. One example is the planning and financial cycles common to development banks, which are too inflexible to allow private companies and local entrepreneurs to invest.

## Changing mindsets

Low income segments offer  
business opportunities

A change in mindsets is needed in order for the business community to increasingly view the low income segment as real economic actors and desirable participants in the business process. Similarly, the international community should move away from a welfare and dependency mentality which is embedded in the term 'aid'. While a dependency relationship between a donor and a recipient is inevitable in respect of humanitarian efforts, it does not resonate well with human development goals seeking to empower individuals to pursue their own sustainable development. Yet soaring food and energy prices along with increasing poverty indicate that aid will be needed for a long time to come.

## **Roundtable 4**

### **Are country-level capacities ready for more aid?**

#### **From alternative aid delivery to budget support**

As part of government capacities to manage development on the whole, the capacity to coordinate and manage aid is critical for putting assistance to good use. However, the ability of programme countries to absorb aid is not only determined by their capacities, it also depends on the capacities and willingness of donors to predictably align their support to government programmes using country systems. The modalities by which aid is delivered play an important part in taking full advantage of existing systems.

Countries with weak capacities need greater use of projects and alternative delivery channels such as non-governmental organizations. Multiple channels of delivery provide much needed assistance, however the actors involved are not easily linked to existing national accountability mechanisms. As government capacity is improved, these modalities should be replaced by increasing the use of budget support through government systems.

In some countries concerns about absorptive capacities may be legitimate, yet they should not be used as an excuse for sustaining traditional development cooperation modalities which undermine the principles of the Paris Declaration on Aid Effectiveness. Since different donors have different definitions of absorptive capacities establishing clear criteria in this area would enable programme countries to better prepare their capacities for scaling-up aid.

Absorptive capacities are also a function of capacity and political will in donor countries

#### **Weak correlation between strength and use of national systems**

Budget support, whether sectoral or general, offers real advantages by pooling donor funds into a larger lever for more systemic outcomes against a national plan owed by the government. While budget support delivers the best results, accountability processes in donor countries are not easily adapted to new aid modalities. Similarly, donor systems are a function of rules and procedures that cut across government departments. Berating aid agencies can thus be of limited effect since reform ultimately will have to come from the political level.

As a related aid modality, sector-wide approaches may release latent capacities of government entities that otherwise are focused on performing perfunctory duties such as paying salaries. Yet sector-wide approaches are only effective as long as the number of donors is limited since different strategies and policies may otherwise contribute to an overly complex and slow approach.

It has previously been assumed that building the strength and reliability of country systems would prompt donors to enhance their use thereby also increasing budget support and putting aid on budget. Despite improved country systems, donors are not changing behaviour to take advantage of the systems in place. In fact, there is weak correlation between the strength of country systems and the level of use. The lack of use has adverse effects on building capacities which in turn has negative consequences on the potential for and impact of further scaling-up.

Accountability processes in donor countries are not easily adapted to new aid modalities

Despite improved country systems, donors are not fully taking advantage of these

## The donor burden

Circumventing government systems erodes the absorptive capacity of programme countries. It also wastes time. In some examples, the process of agreeing and signing off on a programme may take years, only for the procurement process to add additional years to the actual implementation. Curbing fiduciary risks should not become an end unto itself but should be held up against the need for responsiveness and the achievement of results. At the same time, programme countries also need to be given adequate time to improve capacities.

Donor fragmentation runs counter to the needs of developing countries and directly impacts aid delivery

Still, donors are continuously putting great demands on programme countries. In 2007, 49 countries received roughly 14,000 donor missions. Donor fragmentation runs counter to the needs of developing countries and it has a direct impact on how aid is delivered. In Tanzania, for example, 600 projects are valued at less than US\$1 million in implementation and Uganda has to deal with more than 600 aid instruments. Nevertheless, providing real incentives to roll-back fragmentation is proving exceedingly difficult. At present, the preferred approaches are mostly limited to establishing performance frameworks at the country level and exerting peer pressure amongst like-minded donors.

Some countries have seen an increase in the use of country systems. Zambia, for example, witnessed a 25 per cent increase between 2006 and 2008. However, preliminary findings of the 2008 Survey on Monitoring the Paris Declaration indicates that the use of programme country public financial management and procurement systems stands at 47 and 45 per cent, respectively - well short of the 80 per cent target set for 2010.

## Nationally-lead and independently assessed

Effective and coherent human resources management enables governments to better take advantage of technical cooperation by proactively identifying gaps and asking for support in areas where national expertise does not exist. Retaining staff in government service can be facilitated by offering various incentives, including topping-up salaries of key staff with special skills such as accountants and auditors. In expectation of attrition, mass-training may provide for a critical mass of staff even if a substantial number of staff should decide to move into the private sector (or international organizations).

National technical analysis should inform negotiations with international institutions

Fruitful discussions often take place at the country-level with the arrival of international institutions, yet subsequent analysis is regularly done by international staff. For technical analysis to be produced by the same institutions that a given programme country may be negotiating with poses unnecessary questions regarding the impartiality of the technical work. Evidently, capacity building in programme countries would benefit if analysis were increasingly conducted by national experts.

While Poverty Reduction Strategy Papers serve as a framework for action, which should include clear prioritization and costing, programme countries may also benefit from developing an aid policy document in order to articulate their expectations with regard to aid management and donor behaviour. Capacity development should be an integral part of national and sector strategies and programmes, but this is still not the case in many countries.

The Public Expenditure and Financial Accountability programme – a partnership between the World Bank, IMF and a number of donors - is currently used to assess the strength of public financial management in programme countries. The establishment of an independent international body to conduct these assessments would further a clear separation of responsibilities with donors providing resources and programme countries managing those.

### **Broadening resources for accountability**

Capacity building efforts usually focus on systems for planning, public financial management, procurement, and evaluation at the national level and in core ministries. These are cornerstones for enhancing management for development results and for effective use of external resources, however, experience shows that other actors such as parliaments, auditor generals and local authorities also have to play a role in order for resources to be used effectively.

Parliaments, auditor generals and local authorities contribute to resources being used effectively

Bottom-up accountability is also needed to improve public sector management and service delivery, with civil society and the media communicating expected results, informing about entitlements and assessing the quality of services provided. In general, aid flows should be made transparent all the way from receipt to outcome.

### **Roundtable 5**

## **How can development aid support national development strategies?**

### **Harnessing programme country ownership and donor participation**

National development strategies function as a starting point of indigenous development as well as an anchor in domestic and international resource mobilization for development. Creating national development strategies is often subject to contentious debate of how to fully harness both the ownership of programme countries and the constructive participation of donors. The successful transition in becoming a contributor depends in large part on whether programme countries possess the overall development capacity to effectively exercise national ownership.

Key to ownership is the extent to which national priorities are reflected in the formulation of national development strategies. If assistance goes beyond the capacity of programme countries, development aid may actually end up having adverse effects. At the same time, a ‘go-it-alone’ approach in the donor-programme country relationship may undermine partnerships and consequently contribute to dwindling donor interest. With peril apparent in both extremes, constructive dialogue should take place on issues such as creating effective project evaluation systems, maintaining policy coherence with projects and overall development strategy and establishing rational and transparent resource allocation system. Conditions should be established by mutual agreement and monitoring progress in implementation should be a joint responsibility of programme countries and donors.

Key to ownership is the extent to which national priorities are reflected in the formulation of national development strategies

Even though the formulation of national development strategies does not follow a set script, there are a number of basic principles which should guide the

process. Policy priorities set by programme countries must be honoured. Changes should only be made on the basis of consultations between programme countries and donors, supporting the policy coherence of the overall strategy. Maintaining an efficient and competent bureaucracy is also necessary to successful implementation of national development strategies. Finally, rather than putting the onus on programme countries, mutual accountability implies that donors should offer support at the various stages of the development cycle, i.e. from formulation to evaluation.

### Minimum standards and policy space not mutually exclusive

Excessive donor missions disconnect senior officials from national agendas and review cycles

Donor missions continue to demand the attention of ministers and senior officials which contribute to disconnecting them from national agendas and review cycles. Despite a negative correlation between managing aid for development results and imposing conditionalities with no policy space, donors introduce measures of conditionality and various indicators beyond what is established in national development strategies leaving little space for programme country governments to implement policies to achieve agreed results.

Financial transactions will always require conditions which must be respected by the involved parties, but this does not warrant donors to dictate how a programme country should pursue its development objectives, e.g. in terms of liberalization and privatization. Since donors will need minimum standards for the proper management of public resources, a viable alternative could be to enter into a *development contract* which would leave government with room to achieve results.

Vague pledges of aid pass the buck of uncertainty to programme countries

As development goals are long-term, aid should by the same token be made more predictable. If the development process continuously has to be adapted to vague pledges of assistance, independent choices by programme countries will not be feasible. Rather than programme countries absorbing risk, donors should strive to eliminate uncertainty.

It is the responsibility of programme countries to define needs and priorities, financial and budget implications, assessment mechanisms and results-based indicators, show leadership and commit themselves to participatory approaches and dialogues with stakeholders. Yet programme countries are rarely granted the opportunity, or have the capacity, to fully forecast the needs for proper implementation of national development strategies.

### Adverse effects of some good intentions

The donor community imposes the strongest conditionalities on countries with the weakest national capacities to manage and coordinate aid. The less able a country is in terms of public financial management, for example, the more is expected in terms of accountability – and the greater the demand for national capacities. However, as conditions are needed to ensure accountability in the use of resources, focus should be on the cases where conditionality has worked well in the relationship between donors and programme countries.

National development strategies are not helped by financing isolated small projects with every donor ‘planting their flag’. Instead, budgetary assistance works as a prime driver of national ownership and aligning support with national development



strategies. This approach is nonetheless often neglected because of limited capacities in programme countries. Channeling aid through non-governmental organizations, on the other hand, offers the advantage of proximity to local poor populations, but at the same time, this form of aid delivery suffers from high overhead costs.

Policy advice should be better at accommodating changing conditions for programme countries. This includes practices of focusing cooperation on social sectors to the detriment of favourable investment in production and infrastructure. Similarly, the developments in world prices with regard to primary and produced commodities have shown that veering programme countries away from commodity extraction and towards production may not have produced the desired results. Also, policy advice to support growth and employment has come with stringent fiscal constraints restricting growth to particular areas, e.g. export of commodities.

## **Roundtable 6**

### **Aid effectiveness agenda: towards consensus at Accra and Doha**

#### **Rethinking international development cooperation**

The lack of coherence between development policies and other donor country policies affecting developing countries is perhaps the single biggest threat to aid effectiveness. International cooperation should support developing countries to achieve more self-sufficient financing of growth strategies, natural resources and public policies. In the longer term, developing countries need to break their aid dependency and be able to raise resources for development without relying on donor aid. This should take place within a broader perspective taking into account the inter-linkages of aid with trade, finance, investment and debt.

Improving the accountability of aid is fundamental to improving its effectiveness. The deep-seated problems in the aid system stem from an imbalance of accountability with accountability to donors receiving the highest priority. Improving the accountability of donors holds promise of effectively tackling persistent problems in international development cooperation such as aid volatility and unpredictability, as well as ending practices with adverse effects such as economic policy conditionalities and the tying of aid to donor goods and services.

Lack of coherence between development policies and other policies affecting developing countries threatens aid effectiveness

Improving the accountability of aid is fundamental to improving its effectiveness

#### **The aid effectiveness agenda**

As a direct and tangible outcome of the Monterrey Consensus, the aid effectiveness agenda offers systematic assessment and monitoring of donor and programme country efforts to improve cooperation. This work has enabled the identification of specific gaps and obstacles to effective development cooperation. The concerns of programme countries and other stakeholders should therefore be addressed by using the existing framework.

The aid effectiveness agenda aims to change behaviour, however at the High Level Meeting of the DAC in May 2008, ministers and heads of agencies recognized that progress in ensuring leadership has been too slow. They agreed to accelerate the transfer of responsibility for managing development programme countries, and that donors

Concerns of stakeholders should be addressed using the existing framework on aid effectiveness



increasingly will use country systems for managing resources. Only strong political leadership will generate the change necessary to achieve the principles of the Paris Declaration through a process of mutual accountability.

Aid needs to demonstrate impact to gain political support for delivering on existing commitments

The various elements of the aid effectiveness agenda do not work in isolation. For example, enhancing leadership will only work if domestic accountability systems are strengthened. Without this, donors will find it difficult to fully entrust the management of aid to programme countries. Political support is also needed for scaling-up aid. With an apparent link between aid effectiveness and scaling-up, development cooperation has to demonstrate its impact on development and the MDGs

It is important that aid effectiveness work has direct operational relevance which calls for a certain degree of specificity. At the same time, the aid effectiveness agenda is highly relevant to how effectively the international aid architecture can address complex development challenges such as the food crisis and climate change. Similarly, disagreement persists as to whether the aid effectiveness agenda should become a political issue which transcends technical discussions, or whether goals should rather be achieved by peer pressure within donors and programme countries.

### Pushing the aid effectiveness envelope

In addition to the role played by national governments in the preparation for Accra, including providers of development assistance outside the DAC, the principles of ownership of development results and of mutual accountability also require active participation of a broad range of stakeholders. Without the engagement of parliaments, local government and civil society, ownership, accountability and feedback mechanisms will not work.

The Accra High Level Forum will identify bottlenecks and leverage the political action that is necessary to overcome these by taking stock of current efforts aimed at changing the way programme countries and donors work together. In the preparation for Accra, programme countries identified six key priorities which were not adequately covered in the Paris Declaration:

- Strengthening demand driven capacity development;
- Increasing medium term predictability;
- Streamlining the application of conditions to draw on programme country ownership and focus on results;
- Division of labour;
- Clear incentives for aid effectiveness in donor organizations;
- Further untying of aid.

Technical assistance, policy conditions and tying of aid pose obstacles to aid effectiveness

*Technical assistance* perpetuates donor monopoly on technical knowledge needed for development and it often results in programming following the commercial and political interests of donors instead of national priorities. Also, the space allowed to governments to determine their own national growth paths has been denied by the use of economic *policy conditions*, including targets for liberalization and privatization as well as macroeconomic ‘discipline’. The Accra Agenda for Action should include a

commitment to end all donor-imposed policy conditions and the use of aid to support foreign and economic policy priorities and interests.

Donors should also commit to expanding the agreement on *untying* aid to all countries and all modalities including technical assistance and food aid, and set up independently monitored targets for translating this commitment into practice. The tying of aid to the procurement of donor goods and services inflates costs, slows down delivery and reduces the flexibility of developing countries to direct aid where it is most needed. Whilst donors have made some efforts to reform, they have excluded key areas such as food aid and technical assistance from their agreements.

Besides the six priorities, the need for greater transparency in aid processes is a prerequisite for democratic ownership and real participation and accountability. Access to information has been very limited as documents are often buried in donor websites, available in only one language and the information is not proactively disseminated. Moreover, key information on conditions attached to aid, on aid allocation, disbursement tables and on decision making processes are not made public, undermining the predictability and monitoring of aid flows. Donors should commit to signing up to a charter setting out high standards of openness and transparency.

Donors should sign-up to a charter on high standards of transparency

Donors and programme countries must also monitor and comply with the commitments made through United Nations processes and human rights conventions, including those specifically addressing women's rights. Indicators tracking gender inequality outcomes, as well as gender equity in budgeting, have been agreed on at multilateral levels and implemented by governments and thus should be a key part of mutual accountability and transparency within donor recipient countries and between donors and host governments. However, gender equality and other social commitments should not be used as conditionalities.

## Implications for the Development Cooperation Forum

The aid effectiveness agenda needs to be closely linked with the broader process of Financing for Development to be discussed in Doha in late 2008. Progress at Accra will be essential for a successful outcome at Doha and the MDG Summit in New York. The Development Cooperation Forum will play an important role in linking and connecting these different processes and improving the prospects for their collective outcomes.

The Forum offers a venue to share perspectives and priorities from different stakeholder groups, to discuss issues openly and to exchange ideas. This includes a role in the ongoing discussions on aid effectiveness, which would also entail a strong partnership with the Working Party on Aid Effectiveness. In this context, civil society suggests that the United Nations hosts the next High Level Forum on Aid Effectiveness in 2011.

Should the United Nations host the next High Level Forum on Aid Effectiveness in 2011?

In future, the Development Cooperation Forum may also provide for all stakeholders to discuss, monitor and review the current aid architecture. At the country-level, it could promote the development of open and transparent multi-stakeholder mechanisms which would allow citizens to hold their governments and donors to account for the use of aid. The Forum could furthermore oversee independent monitoring of progress as an international mutual accountability forum.

The DCF could serve as a mutual accountability forum

## Annex I: Panelists

### Roundtable 1: *Allocating more aid - where should it go?*

Ali Mahaman Lamine Zeine, Minister of Economy and Finance, Niger (moderator)

Paul Collier, Professor and Director, Oxford University

Richard L. Greene, Deputy Director of Foreign Assistance, U.S. Department of State

Sambou Wague, Secretary-General, Ministry of Economy and Finance, Mali

### Roundtable 2: *South-South and triangular development cooperation*

Paavo Vayrynen, Minister of Foreign Trade and Development, Finland (moderator)

Liu Guijin, Ambassador and Special Envoy on African Affairs, China

Karen Zelaya, Minister of International Cooperation, Honduras

Masato Watanabe, Deputy Director General, International Cooperation Bureau, Ministry of Foreign Affairs, Japan

### Roundtable 3: *How are civil society and new actors enhancing impact?*

Peter Adams, Executive Director, New Zealand's International Aid & Development Agency (moderator)

Michel Kazatchkine, Executive Director, Global Fund to Fight AIDS, Tuberculosis and Malaria

Kumi Naido, Chief Executive, CIVICUS

Shona Grant, Managing Director, World Business Council for Sustainable Development

Peter Msola, Minister of Science, Technology and ICT, Tanzania

### Roundtable 4: *Are country-level capacities ready for more aid?*

Kemal Dervis, Administrator, United Nations Development Programme (moderator)

Gérard Niyibigira, President, Economic and Social Council of Burundi

John Rwangombwa, Secretary-General and Secretary to the Treasury, Ministry of Finance and Economic Planning, Rwanda

Ingrid Hoven, Director-General, Ministry for Economic Cooperation and Development, Germany

### Roundtable 5: *How can aid support national development strategies?*

Charles Michel, Minister for Development Cooperation, Belgium (moderator)

Park Kang-ho, Director General for Development Cooperation, Ministry of Foreign Affairs and Trade, Republic of Korea

Bernard Petit, Deputy-Director-General for Development, European Commission

Ali Mahaman Lamine Zeine, Minister of Economy and Finance, Niger

### Roundtable 6: *Aid effectiveness agenda - towards consensus at Accra and Doha*

Munir Akram, Ambassador and Permanent Representative of Pakistan to the United Nations (moderator)

George Y. Gyan-Baffour, Deputy Minister of Finance and Economic Planning, Ghana

Eckhard Deutscher, Chair, OECD/DAC

Ramesh Singh, Chief Executive, ActionAid International

Trevor Manuel, Minister of Finance, South Africa and Special Envoy of the Secretary-General for the Doha Review Conference on Financing for Development

## Annex II: Annotated agenda for the 2008 DCF

### Roundtable 1: *Allocating more aid - where should it go?*

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.

#### Discussion questions:

- 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?

### Roundtable 2: *South-South and triangular development cooperation*

South-South and triangular cooperation is of growing importance in international development cooperation, playing a complementary role to traditional bilateral and multilateral aid. South-South development cooperation is significantly in the form of project finance and technical assistance with little or no conditionalities attached. It is a source of considerable funding for infrastructure and productive sectors with around two-thirds provided as loans on concessional terms in line with programme country policies.

South-South development cooperation is considered fairly predictable while at the same time being responsive to changing priorities in programme countries. It is subject to relatively little evaluation beyond scrutiny of the timeliness and completion of projects. Most Southern contributors do not participate in formal harmonization and coordination initiatives.

#### Discussion questions:

- How can development actors' best learn from the *experiences of South-South development cooperation*, particularly in terms of curbing policy conditionality and balancing flexibility and predictability of financing?
- What are the *challenges for programme countries* in managing and coordinating South-South development cooperation?

- What would be the preconditions for South-South development cooperation actors to play a larger role in *coordination and harmonization initiatives* at the country-level?
- What would be the main obstacles to more *reliable data* on triangular cooperation through specific reporting by donors as well as on South-South development cooperation?

### **Roundtable 3: How are civil society and new actors enhancing impact?**

Recent years have seen a rapid growth in sources of funding for development cooperation from outside regular donor channels. Proliferation of funding sources has some important advantages, including wider choices of funding for programme countries which can enhance stability and predictability of flows by diversifying risk, especially for countries with relatively few sources of financing. It also provides more diverse perspectives on development issues (from national and sectoral development strategies to technology and expertise transfer).

Yet proliferation has potential disadvantages, including conflicts over development priorities and conditionalities, increased earmarking and a dramatic increase in transaction costs. In addition, it adds to the strain on programme country capacities by diverting staff to work as project counterparts and spending resources on technical assistance to manage projects.

#### **Discussion questions:**

- What are the *comparative advantages* of civil society, businesses and new actors, such as global funds and private foundations, in providing and contributing to development cooperation at the country-level?
- What are the experiences of *aligning support* of civil society and new actors with national development priorities, in particular in countries which are challenged in respect of national capacities?
- How do development actors that are explicitly *results-driven* and *performance-based* avoid becoming engaged in short-term and off-budget financing at the country-level?
- How could the added value and development impact of *public-private partnerships* be better documented and disseminated to wider audiences?
- How may the development cooperation activities of non-bilateral and non-multilateral actors be *better accounted for* at the global level?

### **Roundtable 4: Are country-level capacities ready for more aid?**

The capacities of programme countries to coordinate and manage aid are growing, with improvements in public financial management, procurement and recording. However, gaps remain in terms of analytical, policy, strategic and evaluation capacities, with these also receiving the least support. The capacity to negotiate alignment of development cooperation remains one of the least developed areas.

Most capacity-building has focused on core ministries, with insufficient support to sector ministries, parliamentary committees, decentralized entities, auditors and civil

society. Under the constraint of limited capacities these organizations tend to assess aid delivery and development strategies based largely on issues other than effectiveness and results. Similarly, problems in coordinating and managing aid, such as disbursement delays, are sometimes attributed to limited ‘absorptive capacities’, yet detailed donor practices and procedures are not without fault in this regard.

### Discussion questions:

- Are concerns about ‘*absorptive capacities*’ justified with regard to the capacities for coordinating and managing of development aid by programme countries?
- How should donors engage with programme countries when *procurement and public financial management systems* are in their infancy or do not exist? Should donors completely abandon the use of parallel implementation units and wait for adequate systems to be developed?
- What are the experiences of *extending capacity-building* for assessing development effectiveness beyond core ministries to sector ministries, parliamentary committees, decentralized entities, etc.?
- How to provide programme countries with the information to *negotiate alignment* of programmes and projects with national priorities, based on knowledge of global best practices by donors?
- What are the experiences of conducting *nationally-led or joint assessments* of national systems managing aid by donors, programme countries and civil society?

### Roundtable 5: *How can aid support national development strategies?*

National development strategies are the principal vehicle for advancing the implementation of national and global development goals at the country level and development assistance will only be effective when it is allocated in accordance with such strategies. Some programme countries, however, feel obliged to direct their priorities towards issues that are likely to ensure continued assistance. This may produce a confluence of aid and national strategies developed to meet the expectations of donors.

Amidst calls for more realistic approaches to formulating and evaluating national development strategies, the credibility of such strategies are sometimes undermined by overextending the scope of otherwise feasible plans. Despite a clear need to prioritize when formulating strategies, this objective is often compromised when it comes to making difficult decisions on trade-offs, notably between different development goals.

### Discussion questions:

- What are the experiences in *formulating, supporting and implementing* national development strategies which fully reflect a nationally-led process?
- What are the *defining characteristics* of country-driven national development strategies which receive the full support of donors?

- How do programme countries most successfully *interact with donors* to achieve support for national priorities when formulating national development strategies?
- How do programme countries most effectively *manage the different demands* of comprehensive and inclusive consultations with national stakeholders, liaising with donors and formulating timely and focused national development strategies?

### **Roundtable 6: Aid effectiveness agenda - towards consensus at Accra and Doha**

The Paris Declaration on Aid Effectiveness marked a step change in articulating benchmarks for progress, yet the negotiations did not engage the full range of stakeholders. Moreover, the Declaration did not deal with several issues of key concern to programme country governments (e.g. conditionality and predictability), as well as issues emphasized by other stakeholders such as parliamentarians and civil society (e.g. accountability and transparency). Primarily occupied with monitoring aid delivery, this process has not demonstrated genuine ability to change donor behaviour or to link the aid effectiveness agenda with sustainable development results.

Aid effectiveness is a highly political issue in that several barriers to progress are of a political nature and political support for aid is unlikely if development assistance is perceived as ineffective. In this regard, it is important to recognize the factors on both sides of the aid relationship that can work against effective aid delivery. For example, on the donor side, considerations of political or commercial advantage, and on the recipient side, the competing interests of line ministries and those whose function it is to look at priorities across the board.

#### **Discussion questions:**

- With clear issues identified for deepening and broadening the aid effectiveness agenda, how could these be addressed to fully accommodate the *concerns of programme countries and other stakeholders*?
- How to strengthen the leadership of programme countries and national stakeholders in *monitoring and mutual accountability* for aid effectiveness?
- Why is the process associated with the Paris Declaration not bringing about clear/measurable *behavioral changes* in donor and programme countries?
- How to establish and demonstrate *clear links* between *aid effectiveness* and the broader issue of *development effectiveness* in order to avoid the international dialogue on the development effectiveness of aid becoming overly technocratic?
- How could the Development Cooperation Forum contribute to *regular assessments of progress* in scaling-up, mutual accountability and aid effectiveness which include all stakeholders?