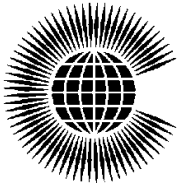


Commonwealth Secretariat

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Commonwealth  
Preparatory Meeting for Fourth  
High-Level Forum in Aid  
Effectiveness

Marlborough House, London, 8-9 September

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**Background Note: Key Busan Challenges and Possible Commonwealth  
Contributions\***

Commonwealth Secretariat  
Marlborough House  
London SW1Y 5HX

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## **Abbreviations and Acronyms**

AE	Aid Effectiveness
BRICS	Brazil, Russia, India, China and South Africa
CFMM	Commonwealth Finance Ministers Meeting
COD	Cash on Delivery (an aid modality)
DAC	Development Assistance Committee (of the OECD)
DCF	Development Co-operation Forum (of the United Nations)
DFID	Department for International Development (of the UK)
GNI	Gross National Income
HLF	High Level Forum (as in HLF-4, Busan)
IATI	International Aid Transparency Initiative
NGO	Non-Governmental Organisation
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development

## Executive Summary

The Commonwealth has had both extensive interest and involvement in global discussions on aid effectiveness. Many Commonwealth members are recipients of aid; and a small but growing number are aid donors. The Commonwealth Secretariat has monitored and made contributions to the global discourse on aid effectiveness for several years, including close monitoring of the second and third High-Level Forum processes leading to the Paris Declaration on Aid Effectiveness in 2005 and the Accra Agenda for Action on Aid Effectiveness (2008) respectively. More recently there has been intensive interaction and collaboration between the Commonwealth and the OECD-DAC Working Party on Aid Effectiveness, in preparing for the forthcoming fourth high-level forum (HLF-4) on aid effectiveness.

2. The HLF-4 will be held in Busan, Korea, from 29 November to 1 December 2011. It will represent a defining moment for international development, reflecting collective efforts by developed and developing partners and by all development stakeholders to implement the international framework to improve the quality of aid. A detailed programme of preparatory work conducted by the Commonwealth during 2010 and 2011 offers the opportunity for the Commonwealth to provide important and substantive collective insights in the lead-up to and at HLF-4, so contributing to the successful outcome of this process. The High-level Forum follows meetings in Rome in 2003, Paris in 2005 and Accra in 2008, which established principles and modalities for transforming aid relationships between donors and partners into true vehicles for development cooperation.

3. The Commonwealth Secretariat has been mandated by Ministers at the CFMM in 2008 to strengthen Commonwealth input to international aid effectiveness processes. Accordingly the Secretariat has undertaken a work programme to help shape Commonwealth input into the evolving aid architecture. The programme has focused on identifying key priority areas where common ground can be found in the Commonwealth with a view to making concrete recommendations for consideration by Ministers and the wider international community in the run up to the HLF-4. A major pillar of this programme is the convening of a high-level Pan-Commonwealth meeting at Marlborough House, London on 8 and 9 September, 2011. An expected outcome of this meeting will be a draft statement on 'Accelerating Development with more Effective Aid', for discussion by senior officials and consideration by Commonwealth Finance Ministers in September 2011 at Commonwealth Finance Ministers meeting. This statement will be distributed to senior officials the week commencing 12th September 2011 immediately after the Marlborough House meeting.

4. Accordingly, this paper sets the scene for technical discussions on aid effectiveness at the Commonwealth Preparatory Meeting for HLF-4 which will be held on 8-9 September 2011 at Marlborough House in London 2011 and subsequent Commonwealth contributions to the fourth High Level Forum on aid effectiveness in Busan, Korea, starting 29 November, 2011.

5. **At this meeting officials are invited to discuss six suggested areas for possible Commonwealth input to the Busan process** which have been identified by the

Commonwealth Secretariat as areas where it may be possible for the Commonwealth to agree on key recommendations for consideration in Busan. These areas are set out at the end of the paper.

6. The paper is structured under four headings: 1) a changed global context since the aid effectiveness process began; 2) assessing the latter's results to date; 3) major outstanding challenges and new issues to be addressed at Busan; 4) six key suggested areas for distinctive Commonwealth action which can provide Commonwealth leadership to and contribute to the successful outcome of the Busan HLF-4.

**7. Changed context and cast of actors.** Massive intervening shifts in global wealth and influence and widespread social and economic progress have transformed the development challenge and the actors tackling it in ways the aid effectiveness agenda does not yet recognise. In particular, Busan will need to accelerate the political inclusion of new categories of non-traditional and “non-donor” development actors.

8. Aid quantity and aid quality are related. Meeting past aid volume commitments - still a partial success at best - underpins the credibility of a new global development compact, whilst demonstrating higher impact from existing aid sustains taxpayer support for those commitments. Aid from DAC sources is flat overall and likely to decline in a majority of countries: new sources are growing rapidly, but from a low base.

9. Managing aid fragmentation is a challenge, but also an opportunity. More work is needed on how aid may truly “catalyse” other development finance, especially in middle-income countries. Meanwhile, a heightened post-crisis focus on value for money, greater concentration on vulnerable countries and on global public goods have shifted traditional donor attitudes.

**10. Results to date: real progress, but slow and uneven.** At the core of the “Paris” aid effectiveness compact was the promise by donors to use developing countries’ clearer strategies and strengthened delivery mechanisms as the main basis for their support. By this crucial standard, donors did not live up to their side of the bargain as much as recipients did. Conflicting donor-side institutional incentives and attitudes to risk are behind this. There is nonetheless evidence of real progress in some country contexts, especially on public financial management. Overall, the principles of mutual accountability and managing for results made the least headway.

11. The Paris monitoring indicators, while arguably overly focussed on process as against impact, have been appreciated by developing countries as a tool for donor accountability. Progress on the 2008 Accra Agenda, especially on transparency, predictability and improved division of labour is still very much work in progress but could respond well to strengthened political signals. Overall, the aid effectiveness agenda would benefit from simplification and a clearer sense of political priorities, whilst ensuring differentiation between a wider range of country contexts and development partners.

**12. Major remaining challenges and key new issues.** Any effort to prioritise an already complex Busan agenda must start with the question of *how to include non-DAC actors and non-aid flows*. One promising framework would be to have a single core set of principles for all parties, allowing subsets of participants to make further but differentiated undertakings specific to their situation. Similarly, recent progress on *transparency* needs to be capitalised

through a political process whereby all actors can adopt compatible but not identical standards.

13. The logjam on *mutual accountability* could be eased by recourse to third-party facilitation and mediation, as the Commonwealth secretariat has proposed. New approaches to *joint risk management* and results-based financing also have the potential to overcome donor disincentives to use country systems.

14. Issues still open for political debate also include, first, to what extent is a comprehensive attempt to *reform the multilateral architecture* timely and feasible (and if so, under whose responsibility)? Second, should Busan include a broader push on the *development policy coherence agenda*, specifically on trade, investment, migration and climate change, not just their most obvious finance flows? In terms of the latter, what can the design of new funding mechanisms-whose logic is not an aid one-learn from the aid effectiveness experience? Third, what kind of *post-Busan governance arrangements* should manage subsequent progress monitoring and who should take the international lead on a “development” effectiveness agenda-given the main default choices which are UN and OECD-based today?

15. **A suggested shortlist of Commonwealth action areas:** there could be scope for Commonwealth initiatives in the following six areas;

1. *Promoting differentiated country treatment and South-South co-operation*
2. *Modelling a new compact on transparency*
3. *Devising a common approach to joint risk management*
4. *Promoting independent facilitation, mediation and peer review mechanisms*
5. *Identifying key post-Busan monitoring areas*
6. *Integrating aid effectiveness principles and climate change.*

## Background

The Commonwealth Secretariat has been mandated by Ministers at the CFMM in 2008 to strengthen Commonwealth input to international aid effectiveness processes. A key defining moment in this process will be the fourth high-level forum (HLF-4) on aid effectiveness which will be held in Busan, Korea, from 29 November to 1 December 2011. The HLF-4 will be a milestone for international development and particularly for the collective efforts over more than a decade by developing countries, donors and many other development stakeholders to implement an agreed international framework to improve the quality of aid.

2. The HLF-4 preparatory process and the HLF-4 itself provides an excellent opportunity for the Commonwealth to draw on and demonstrate its core strengths and relevance to its membership and to the wider international community. As recognised in the CHOGM declaration of Port of Spain – Partnering for a more equitable and sustainable future - the Commonwealth is a family of nations with a history of building consensus around challenging issues and is well-placed to use its convening power to do this in the specific context of aid effectiveness. The Commonwealth's 54 members make-up a diverse community which is a microcosm of the global community and if dialogue and consensus can be built within the Commonwealth then it will assist dialogue at the global level at HLF-4 and beyond.

3. Accordingly the Commonwealth Secretariat has undertaken a multifaceted work programme to help build Commonwealth consensus on key aid effectiveness policy issues and key policy recommendations for consideration by the wider international community in its preparations for the HLF-4. A major pillar of this programme is the convening of a high-level Pan-Commonwealth HLF-4 preparatory meeting at Marlborough House, London on 8 and 9 September, 2011. The expected outcome of this meeting will be a draft statement on 'Accelerating Development with more Effective Aid', for discussion by senior officials in Washington and consideration by Commonwealth Finance Ministers in September 2011 at Commonwealth Finance Ministers meeting. This statement will be distributed to senior officials in the week commencing 12th September 2011.

4. **The meeting will focus on six suggested areas for possible Commonwealth input to the Busan process** which have been identified by the Commonwealth Secretariat as areas where it may be possible for the Commonwealth to agree on key recommendations for consideration in Busan. These areas are set out at the end of the paper.

5. This paper sets the scene for Commonwealth preparatory discussions on aid effectiveness. The paper starts by outlining the changing global development context and proceeds to discuss the results to date in implementing the aid effectiveness agenda. The paper then moves on to identify major remaining challenges in implementing the aid effectiveness agenda and sets out key issues "beyond aid" which require discussion in the run up to and at Busan itself. Finally, the paper concludes with six suggested action areas for Commonwealth leadership in the run up to and at Busan.

## **A: A Changed Global Development Context and Cast of Actors**

6. This section considers several powerful changes in the global landscape and different perspectives on development, which were not centre-stage when the “Paris” aid effectiveness agenda was formulated in 2005, but now shape the opportunities and challenges for Busan. It covers in particular:

- Shifts in global wealth and influence
- Changed development needs
- Links between aid volume and aid quality
- Non-DAC assistance flows and non-aid development finance
- Post-crisis aid policy in traditional donor countries

7. **Shifting global wealth and influence...** It is now commonplace, especially in the aftermath of the global financial and economic crises which brought the G20 to prominence, to acknowledge the massive shifts in the world economy since the 1990s, and their profound effects on global governance. A multi-polar world now depends for its sustained growth and trade and investment flows as much on countries that are not members of the OECD “industrialised” club as on those that are. More generally, middle-income countries of all sizes are increasingly supplying development finance, technology, and expertise and market linkages to other developing as well as developed countries, in mutually beneficial networks. In this environment, North-South perspectives become less relevant and South-South ones more complex. The Commonwealth is no stranger to this evolving landscape.

8. These phenomena were however largely absent from the development discourse at the time of the 2005 HLF2 in Paris (in which the BRICS, for example, played no distinct role). These factors were still under-rated, compared to the situation we see today as the “new normal”, as recently as the late summer of 2008, when HLF3-Accra took place. That event attracted a broader group of participants than at the HLF-2 in Paris, but still did not actively integrate the experience and views of “non-traditional” development actors. **The Busan meeting will clearly need to take this inclusion process further, a point we return to later.**

9. **..And a changed global poverty map...** It is also worth remembering that the 1990s and 2000s saw sustained rapid growth and poverty reduction not just in large emerging economies, but also across much of the developing world including Africa, though the absolute numbers pulled out of poverty in Asia dwarf the rest. The number of low-income countries, measured against an admittedly arbitrary threshold of about \$1000 per capita in constant terms, has also fallen by a third in the last decade, from about 60 to 40.

10. This steady process of graduation, albeit with some glaring reversals through conflict, means that three quarters of the world’s absolute poor now live in middle-income countries (Glennie, 2011), compared to less than 6 per cent in 1990. This means that the development challenge, as well as the tools and actors to tackle it, have altered comprehensively since Paris.

11. **..Make old aid concepts obsolete.** In this transformed context, we are less likely to see repeated a linear process where a country such as Korea moves in stages from low-income, aid-dependent status, to middle-income, to no longer needing large aid volumes, to high-income and OECD membership, and finally a major international donor. Today’s



emerging economies, including some G20 members, mostly have relatively high poverty headcounts and low average income levels by OECD standards, yet already actively pursue outbound development cooperation efforts of their own. Moreover, unlike countries such as Korea, many have a continuing structural need for official capital in-flows. For them the lexicon of “aid-giving” versus “aid-receiving” country is therefore increasingly irrelevant, as they can be both at the same time.

12. **Aid volume: a glass half full.** It was clear in Paris and Accra that improving the quality of aid is no substitute for the fulfilment of aid volume pledges, especially those made in 2005 at landmark G8, EU and UN Summits. These had a 2010 collective horizon (many set additional targets to 2015), and were mostly framed as percentages of national income. They concerned Official Development Assistance (ODA), an accounting standard for aid from public sources intended for development purposes and delivered on grant or soft loan terms. Between 2005 and 2010, ODA did increase at an unprecedented rate, by some \$27 billion a year in real terms. But this rise fell some 40 per cent short of the overall pledge, with Italy, Germany and France accounting for most of the gap. Aid to Africa also grew faster than before, but similarly fell short of a further regional goal.

13. The *good* news is that a large majority of DAC (Development Assistance Committee of the OECD) members, including its four Commonwealth ones, Australia, Canada, New Zealand and the UK, did meet their 2010 commitments, in the teeth of the global crisis. Many have also met, or like the UK are well on track to meeting, the 0.7 per cent (ODA/GNI) United Nations goal. The *bad* news is that several others are still treading water or even cutting back on aid budgets, citing fiscal pressures and an increasingly aid-sceptic public. Continued aid growth cannot safely be assumed. The DAC survey of aid spending intentions through 2013 (DAC, 2011), shows overall country assistance prospects as essentially flat (2 per cent growth over 2010) and more worrying, falling in two thirds of beneficiary countries, offset by rises for a few large ones.

14. **The Commonwealth input to Busan could usefully emphasise the two-way relationship between aid quantity and quality. Meeting past volume commitments is vital to the credibility of any new global development deal: yet demonstrating greater aid impact is essential to sustain domestic support for those very commitments.**

15. The best guesstimates for **ODA-like flows coming from outside the DAC** (from emerging government sources and non-government actors such as foundations) are that these amount to some \$30 billion a year, or about one quarter of the current DAC total of \$125 billion. (F. Prada et al, 2010). For example, India alone is estimated to provide \$600 million a year on ODA-like terms (European Commission, May 2011). As reporting by non-members is patchy and definitions are not standardised, such aggregates could well be an underestimate<sup>1</sup>. Non-DAC sources are probably growing significantly faster than DAC ones right now. However, if this starting point of 1:4 is roughly right, and even if “traditional” aid completely stagnates from now on, it would take more than a decade of double-digit growth of new sources to bring them close to parity with DAC ones. So the Paris and Accra principles could remain relevant for many years, even if not adopted by new sources, so long as they hold the active commitment of their original sponsors.

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<sup>1</sup> One of the main uncertainties is where to set the boundary between soft and market-terms loans from emerging sources. A broader comparison would include all other official flows, of which the other big net providers (post-crisis) are the multilateral banks. Another tricky area is the extent to which ODA-like activities of NGOs are financed independently of governments and foundations, to avoid double-counting.

16. **More choice, more fragmentation: a mixed blessing.** There are dozens, even hundreds more sources of official as well as private and non-profit development finance today than there were in 2005. This is not just due to new or non-traditional states and private actors entering the scene. The number of multilateral agencies and trust funds, still largely funded by “traditional” donors, has also increased sharply in the past decade, especially with the introduction of so-called vertical funds aimed at tackling specific global challenges, such as communicable disease or climate change.

17. This proliferation of development channels and programmes has outpaced the overall growth in aid volume, so aid flows have become more fragmented, both within and across countries. Thus for example the DAC (DAC, 2010) finds that half of all reported aid relationships contribute less than 5 per cent of total aid volume disbursed at country level. The combined management requirements of these multiple channels can put great strain, all things equal, on beneficiary governments and implementing entities, and pile up excessive donor overhead costs, effectively a tax on useful aid. This loss has been estimated to be as high as \$5 billion per year (Killen and Rogerson, 2010)

18. This dispersion is a real problem but also an opportunity, as greater choice over sources, channels and terms, as well as better risk spreading and improved bargaining power, offers offsetting benefits for aid users. Countries do not complain that they have more offers of support than they can handle, though they may object to the extra red tape involved. Well-intentioned but unilateral efforts to consolidate donors’ geographical footprints can also aggravate the phenomenon of under-aided countries or “aid orphans” (Rogerson and Steensen, 2009), on which the Accra Agenda called for a collective response, sadly not yet forthcoming.

19. **Non-aid flows.** Along with the increased focus on non-DAC sources comes the growing recognition that aid as such—whether measured narrowly as ODA or broadened to include other official flows—is only a small part of a much bigger spectrum of development finance. The key other ingredients are, first and foremost, domestic resources, which by themselves dwarf aid in all but the most fragile country contexts; foreign direct investment and long-term private loan flows; migrant remittances; and individual and corporate philanthropy, channelled through a variety of intermediaries including NGOs. A major policy issue not yet addressed in the AE agenda is to how aid can best be deployed to have a “catalytic” effect on these other flows. This relates to the bigger question of how far the Busan agenda should move “beyond aid”, and open up to a broader set of policy coherence concerns, as discussed in the third section.

20. **Rethinking the case for aid: value for money, fragility, and global public goods.** One legacy of the economic crisis in donor countries, and of broader awareness that the global development map has changed, is greater public scrutiny of the results obtained by aid and increasing challenges to its focus and time horizon. This often takes the form of a heightened results and “value-for-money” culture, which is on the face of it consistent with the Paris results management principle. In seeking closer attribution of outcomes to external support, this priority can however come into tension with the cardinal Paris Declaration principle of country ownership, which is less emphasised in recent donor statements.

21. Public opinion—not just in donor capitals—also asks increasingly searching questions about the trajectory for aid and the prospects for reduced aid dependence over time,

foreshadowing smaller but catalytic development programs in rapidly progressing country contexts. In line with the shifts in world poverty discussed above, this discourse also argues for greater concentration of aid on fragile states and other situations where growth may be stalled or threatened, including by climate change. These now account for a majority of low-income countries. Finally, the case for investment in global public goods, notably climate change, for which the underlying motivation is different from, but reinforces that of development aid, is stronger than ever. We return to this topic below.

22. The next section looks, against this background, at what the aid effectiveness process has achieved against the standards it set itself originally. In the third section, we return to some of these “missing pieces” and missing actors, as well as key original policy areas in which progress needs to be accelerated.

### **B: Results of Aid Effectiveness (AE) Effort to Date: Real Progress, but Slow and Uneven**

23. In this section we look, first, at what the core aid effectiveness compact was intended to achieve, and how, against its key proposition, developing countries kept their side of the bargain better than aid donors did. We then look in more detail at what the evidence, especially the Paris Declaration monitoring process, tells us. Finally we look at some of the work-in-progress since Accra (2008) and discuss the challenge that the entire agenda needs to recapture political potency and visibility.

24. **What was the core aim?** The aid effectiveness (AE) framework, particularly the Paris Declaration, has five pillars or principles, intended as mutually reinforcing:

- *Country Ownership* (of development strategies)
- *Donor Alignment* (to country strategies and their delivery systems)
- *Harmonisation* (of processes and assessments, across donors)
- *Management for Development Results* (by everyone) and
- *Mutual Accountability* (of donors and their “partners”) for the above

25. At their core is a political compact whereby “if you build it, we will come”. If countries take a clear lead in establishing priorities and adequate delivery and accountability mechanisms, donors agree to use these as the main basis for their support, and to remove or sharply cut back on other requirements. The terminology is stilted, and the model aid relationship this framework describes is idealised and arguably sanitised of real-life political complications on both sides. There have been several subsequent extensions, notably the Accra Agenda’s emphasis on greater transparency and predictability.

26. But the core deal stands, is readily understood, and sets expectations quite high. Moreover, as the independent Paris Declaration evaluation report (Wood et al, 2011) finds, these commitments, if implemented, are definitely relevant to improving aid quality and impact. Standards of partnership are rising, and developing countries can use them as leverage in their individual negotiations.

27. **The bottom line of the evaluation and progress reporting to date, against this core compact, is that developing “partner” countries have delivered on their part of the bargain to a significantly greater extent than donors, within a general trajectory that is too slow and uneven.**

28. **What is the evidence?** A distinctive feature of the AE process is that these five sets of principles and associated behaviours (mainly the first three) were converted to 12 specific progress indicators, for which baselines and target rates of improvement were set in 2005 for 2010. They were then surveyed across a large range of countries on two occasions, the first in 2008 and the last just a few months ago.

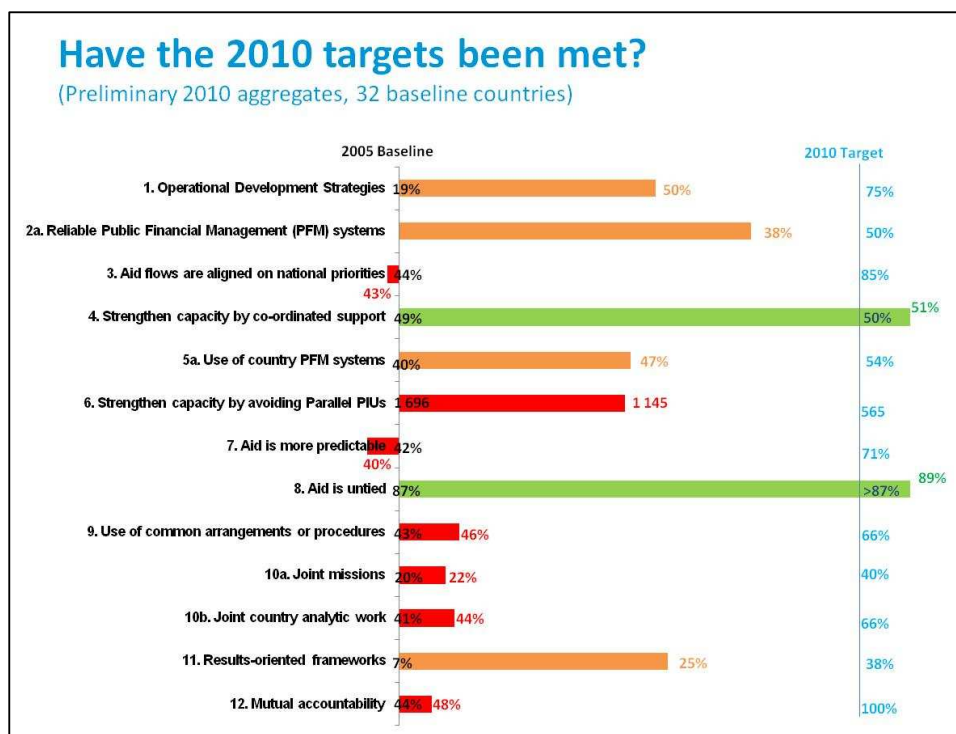
29. This measurement process has proven a double-edged sword. On the one hand, specific, time-bound and quantified targets certainly focus political accountability—a point we will revisit in looking at what happens post-Busan, as no arrangement for extending this monitoring beyond 2011 is yet agreed. While progress on several indicators has proven disappointing, progress on AE commitments not backed by any monitorable indicator is much harder to pin down, thus less politically visible, all else equal.

30. On the other hand, the indicators can be unreliable guides to real progress on AE, for different reasons. One is that they are still too focussed on efficiency (on transactions costs of aid processes especially) and not enough on effectiveness (development impact). However, there is virtually no evidence from the country studies of the Paris declaration evaluation (Wood, op.cit, p.29) that harmonisation of donor processes leads to substantial savings either for them or their country partners, and some evidence to the contrary.

31. A second reason is that there were understandable short-cuts and proxies used at the outset to frame indicators or assign assessment roles which may not stand up to close scrutiny. Thus for example, the proxy for country ownership (“operational development strategies”) is rated by the World Bank, based on its required internal review of a government strategy document from a different perspective. These documents are presented periodically by all low-income countries as a formal condition of access to the Bank’s concessional funding. Ideally, a third-party review based also on other evidence would be preferable, though probably harder to organise.

32. Beyond the indicators, however, an impressive array of other material has been assembled to assess the AE process as a whole, including specific country studies involving extensive interviewing for which more than 60 developing countries volunteered, implicitly “voting with their feet”, or rather their time, on how important these issues were for them. **This bears re-emphasising by the Commonwealth: Paris-Accra is not a “paper tiger” in its intent: if implemented fully in its key respects, it would still make a real difference.**

**Table 1: Results of 2011 Paris Declaration Monitoring Survey<sup>2</sup>**



## Main Findings of the 2011 Survey on Monitoring the Paris Declaration

33. **Paris Declaration.** As the above “traffic light” bar chart visually suggests, progress right across the core AE agenda has been disappointingly slow (few greens), uneven, and in several respects (reds) quite inadequate, by the standards the signatories of the Paris Declaration voluntarily set themselves. *Ownership*, whose advancement is quintessentially a developing country responsibility, has progressed furthest, well beyond *alignment and harmonisation*, where the prime responsibility is with donors. *Mutual accountability and managing for results* have seen the least progress.

34. This asymmetry between country and donor performance looks paradoxical, in that donor commitments (such as relying on national accounting systems when they are objectively rated as being robust enough, or reducing the number of stand-alone project management units they require) look on the face of it less demanding than those undertaken by developing countries. Moreover, donors were assumed to have greater capacity in aid management, relative to their partner countries, from the outset.

35. The evaluation associates this relative lack of donor-side progress with a lack of underlying institutional change at individual donor level, and insufficient incentives for staff

<sup>2</sup> Graph from OECD Presentation titled “Evaluation and Survey Findings” made at WP-EFF plenary meeting on aid effectiveness, July 2011

and managers to change fundamental attitudes affecting AE at their end. The most frequently cited example concerns attitudes to risk implied by the increased use of “country systems”. Donors may genuinely want-at some level-to encourage their use, both because they are committed to do this in principle, and because they understand that national capacity will not be transformed unless calculated risks are taken on both sides to demand more of it. But donors’ own internal systems and control cultures, reinforced by zero-tolerance public attitudes to aid failures whenever these are exposed, pull powerfully in the opposite direction.

36. **Accra Agenda for Action and beyond.** Although more recent, not benchmarked or monitored as systematically as Paris and not yet evaluated in such depth, progress on the additional commitments made at Accra in 2008 tells a similar story. The central planks of this enhanced agenda are greater transparency and predictability of aid and improved donor division of labour. The aid transparency agenda has attracted most attention, mainly through the concurrent International Aid Transparency Initiative (IATI), benefitting from the endorsement of a growing subgroup of development actors and their recent landmark agreement on a common data standard. There are big potential gains to be reaped from this ambitious vision, if adopted widely and consistently enough, as discussed in the next section.

37. On predictability, relatively little progress has been made, in particular on the commitment “beginning now” (i.e. in 2008) for donors to share their non-binding aid plans several years out with partner countries. The data are collected regularly and could easily be shared in real time, but some donors still do not feel comfortable releasing them.

38. On division of labour there have been some significant improvements at country level in reducing the dispersion of aid efforts across sectors. However fragmentation of aid across countries, as pointed out earlier, is actually worse now than in 2005. The related problem of under-aided countries, which is a collective allocation issue across the aid community referenced in the Accra Agenda, has yet to be tackled. These are essentially political issues, as the technical tools to measure these problems and track solutions have been developed and discussed in detail since 2008.

39. **Less technical detail, more political clarity.** A plausible cross-cutting criticism of the entire aid effectiveness industry of the past decade is that it has become more bureaucratised, more jargon-laden, and less politically inspiring than it should be, even granted that it covers only part of the development challenge. AE efforts are also now dispersed over too many areas of potential progress, of unequal value. Some of these, like harmonisation, are at best a means to an intermediate end like reducing costs, not fundamental development challenges which if tackled right now will tangibly improve peoples’ lives. So the international community needs to prioritise its efforts even within, as well as beyond, the bounds of aid effectiveness. AE efforts also need to be tailored to very different country contexts, especially fragile states, where attempts to replicate an overly mechanical agenda may absorb too much already scarce attention. **The Busan outcome statement will therefore need to tread a fine line between greater simplicity and immediacy, yet have sufficient relevance to a wide range of stakeholders and contexts.**

40. The next section examines where the main remaining challenges and new issues lie, which need to be addressed in framing desired Busan outcomes.

## C: Major Remaining Challenges and Key New Issues

41. In line with Ministerial mandate, the Commonwealth is seeking to build consensus on key aid effectiveness issues and make key policy recommendations for consideration by Commonwealth Ministers and the broader international community. Accordingly, the Commonwealth Secretariat has identified remaining challenges and key new issues to be addressed in Busan where the Secretariat feels that common ground can be found. These can be grouped under 6 questions:

- How (not whether) to include non-DAC actors and non-aid flows?
- How far to go “beyond finance” to broader policy coherence?
- Transparency-how to accelerate adoption of a new standard?
- Could third-party mediation help bridge the mutual accountability gap?
- Can the messy multilateral “architecture” be reformed? And...
- Who is responsible for all of this after Busan?

42. **Inclusion of non-DAC actors and non-aid development flows.** There is no perfect recipe for co-opting “newer” sources of development co-operation into an aid effectiveness agenda they did not actively help frame, and which in significant ways does not integrate their perspective. Part of their unease is anyway due not to the substance of the effectiveness agenda but to the OECD label, associated with a historically exclusive group under whose loose aegis it is in fact now being developed by a much wider group of stakeholders. Conversely, there are risks in re-formulating existing Paris-Accra commitments in ways that might dilute them for their original signatories, under the guise of making them more acceptable to a wider group.

43. Similarly, there is an obvious need to link aid (narrowly defined as ODA or including other official flows) to the bigger spectrum of development finance, including from private foreign sources as well as domestic financing, and their associated processes and institutions. And yet, there is a parallel risk of “drowning” an already complex discussion focussed on a few aspects of development co-operation in a sea of other policy challenges, from trade to migration to foreign investment and beyond. As a minimum, there should be an obligation for Busan to show how “aid” complements these other flows.

44. **The Commonwealth 54 members make-up a diverse community which represents the diversity of actors within the aid system (DAC and non-DAC donors, established and emerging middle income countries, Less Developed Countries, Small Island Developing States). If dialogue and consensus can be built within the Commonwealth then it would assist dialogue at the global level at HLF-4 and beyond.**

45.

46. In terms of who subscribes to what, the leading, but by no means agreed, option is arguably a **“common but differentiated” framework**, i.e. a tiered arrangement whereby all parties sign up to a single core set of principles, then subsets of participants also make (or re-state) specific undertakings appropriate to their situation. The common set of principles could cover all development finance, and would be at fairly high level, enshrining principles like transparency, complementarity, mutual learning, public accountability, and adherence to human rights. These terms would all need subsequent elaboration, but would become a crucial common reference after Busan.

47. **Transparency: one minimum standard, but whose?** There is considerable momentum behind IATI, as already mentioned, especially in civil society. Recent advances in information technology have enabled real-time consolidation of multiple data sources, obviating the need for large central databases. This approach crucially depends on a common data standard for consistency, and one exists for aid, developed by IATI recently. A few donors, including DFID, are already web-publishing their data to this standard, and others are committed to do so. The United States, not a signatory of IATI, has adopted a compatible but parallel transparency approach. In principle, so could many others.

48. Busan could boost momentum for these efforts by making universal the commitment to publish relevant data, on aid but also on national budgets and other development finance, in sufficient detail and quality, referencing such a common standard. Politically, care is needed to separate membership of IATI as a multilateral organisation, which is discretionary, with the universal adoption of a technical standard equivalent to the one developed by IATI, which Busan could mandate. The latter approach begs the question of who judges this equivalence, if the entity making the commitment is not an IATI member. Nonetheless it provides a useful basis for moving forward. The time-frame for implementing any such commitment would also require flexibility and in some cases, external support to build the capacity to meet the standard.

49. **Transparency is a key pre-requisite for accountability and openness is an issue of interest to all Commonwealth countries, in line with the values that unite the Commonwealth. The Commonwealth is well placed to lead in this area.**

50. **Mutual Accountability: an additional recourse?** It is no real surprise that progress on mutual accountability lags behind other AE areas. There have been local successes with joint assessments and other experiments to promote better dialogue and partnership, but this is not the norm. Real-life power imbalances between needy clients with few alternatives and rich patrons with many can make two-way accountability very difficult to enforce, if not to imagine altogether.

51. An intermediate approach to help bridge this gap is suggested in the Paris evaluation report, and has been separately suggested by the Commonwealth Secretariat (Commonwealth Secretariat, 2011). This involves using third-party facilitation and mediation. This could potentially take one of several forms, at three levels. At the country level, for example, these parties could facilitate national accountability workshops, to lobby for and catalyse change in a non-confrontational setting.

52. At the regional level, peer review mechanisms could look across country cases, drawing in more senior players in the relevant agencies. At international level, countries who feel their concerns have not been taken up adequately could use such parties as mediators, i.e. to carry messages to the headquarters of the relevant sources and try to seek consensual resolution. Potentially, this experience could be consolidated in an ombudsman-type function at the regional and/or global level. Obviously, much depends on the skills and credibility of the third-parties selected, and the mandate they are given, which these options merely illustrate. **The Commonwealth itself is potentially well placed, given its composition and history, to undertake such a role as Commonwealth countries work together in a spirit of co-operation, partnership and understanding**



53. **New approaches to joint risk management.** If perceptions of risk by donors are at the root of the lack of incentives for them to use country systems, as suggested above, then a more direct approach to recognising and mitigating these risks may be a way forward. As a minimum, the idea is that both sides candidly discuss the risk profile of an aid-funded programme, if only to isolate where it is subject to remedies within the parties' span of control (such as improving financial systems) and where not. This also requires separating jointly manageable risk more clearly from unilateral lack of trust, which is alas not unknown in aid relationships, but absent from the stylised Paris model.

54. Similar considerations underlie so-called results-based financing; especially cash-on-delivery (COD) funding (Birdsall et al, 2010). The idea is for donors to take off the table those financing risks borne by the host country but imposed by donor behaviours in conventional aid. At the same time, countries would explicitly assume the full implementation risk, redirecting resources freely in whatever way they think will deliver results-which in turn trigger aid payments. This type of contract may not be as good for both sides as a locally negotiated risk management solution, but it powerfully clarifies roles and responsibilities.

55. **These approaches are being pioneered and led by a number of Commonwealth members, such as the UK and Canada and the Commonwealth is potentially well placed to further develop these approaches given that the Commonwealth family work together in a spirit of co-operation, partnership and understanding. This openness and flexibility are integral to the Commonwealth's effectiveness.**

56. **Multilateral Development Architecture: should and can it be fixed?** Another remaining question-mark in the run-up to Busan is whether there should be some reform of the sprawling "architecture" of multilateral aid, especially the overlapping mandates and increasingly narrow earmarks of so-called vertical funds, active in health and climate change in particular. The Accra Agenda for Action, for example, urged signatories to "think twice" before creating any new mechanisms of this type. And yet many more have in fact been created since 2008. **This is important to many Commonwealth developing countries as proliferation and fragmentation can put a great strain on capacity constrained developing countries.**

57. If overall aid volume is now assumed to have stopped growing rapidly, such new constructs can only be created or expanded at the expense, in large part, of regular country-based aid programmes. Yet, quite unlike the intent of Paris, these funds mostly operate without a country presence and many do not have planned country allocations at all-they make decisions based on periodic cross-country assessments of funding proposals, whose result is often unpredictable. This means that developing countries need to be more closely involved in decisions to create and expand them, conscious of their benefits but also potential costs and risks.

58. The main open questions related to reform of the multilateral system, in the Busan context, are not so much whether there is need for such reform (probably yes) but whether such a complex process is politically as well as technically manageable (uncertain); and if so by whom ; and on what time frame (well beyond Busan?). **Commonwealth views on this subject could help tilt the balance, but the inertia to be overcome is considerable.**

59. **Climate change finance-in or out?** Understanding that climate change funding, as defined in the Copenhagen Accord for example, follows a different logic from development co-operation does not mean that aid effectiveness lessons are not relevant to that wider context. This is true even if all public international funding of climate change action is genuinely “new and additional” with respect to development aid, despite the high degree of intrinsic purpose overlap between the two and the lack of obvious alternative fiscal sources to ODA in the short term. Stripped of the “aid” tag, however, many lessons from the Paris process, on the importance of integration with country priorities and delivery systems in particular, deserve to be taken up in earnest by designers of climate change financing instruments.

60. **This issue is of particular relevance to Commonwealth countries especially as many Commonwealth members are vulnerable to climate change (Small Island Developing States (SIDS), low-lying coastal states, Least Developed Countries (LDCs) and other African member states). These vulnerable countries face both a high exposure to risks from climate change, and significant constraints in their human and institutional capacities in responding to the challenges.**

61. **Beyond finance to policy coherence?** This is a specific illustration of a larger issue—how much should Busan expand the agenda well beyond aid (and beyond development finance), to other policy “coherence” areas within a joined-up approach to development, like climate change, migration, and trade and investment policies? So for example, regional integration arrangements, such as those of the EU with ACP countries, often combine expanded trade access and financial aid, meaning that funding flows must be understood in that wider context, not in isolation. The same obviously applies with migrant remittances and the opening up of external labour markets, or encouragement of foreign investment in relation to domestic and international tax policies.

62. There is however a risk that attempts to expand into all these areas could distract attention from fulfilment of outstanding and quite specific aid effectiveness commitments. They could also encroach on policy areas outside the expertise of many Busan’s participants, for which competent discussion fora (G20, UN, etc.) already exist. Clearly a balance needs to be struck.

63. **Post-Busan monitoring and governance responsibilities.** There is an emerging consensus that the Paris progress monitoring process has in itself been valuable, and is appreciated by developing countries in particular, as a tool for holding parties to account. It is also recognised that it should be streamlined and focussed on fewer indicators that go to the essence of results at country level. One or two new areas—such as fulfilment of transparency pledges—may also need to be included. Responsibilities for collecting information should be devolved to countries themselves, and their local group of external partners, as far as possible. How feasible is this, and **what should a minimum set of indicators consist of?**

64. That said, and bearing in mind earlier suggestions on neutral facilitation and mediation, a final question surrounds who should take the institutional lead after Busan on a re-invigorated, and hopefully more inclusive, development effectiveness agenda? The machinery of the Working Party on Aid Effectiveness, hosted in Paris by the DAC but with over 80 members from a wide range of stakeholders, is undoubtedly unwieldy. It arguably nonetheless strikes a sufficient balance between effectiveness and inclusion to have kept the

AE agenda moving forward gradually, albeit at a relatively low level of political visibility and buy-in.

65. Has this arrangement now outlived its usefulness in a changed international context? It is obvious, if largely cosmetic, dependence on a “donor club” sends mixed signals, especially to new development actors. The logic should be that the DAC is just one constituency within a much broader international partnership, not that the latter is in any way a “subsidiary” of the former (Killen and Rogerson, op.cit).

66. The alternative option for a continuing forum on development effectiveness, into which the processes and support structures of a streamlined Working Party could be progressively spun, is clearly the UN, specifically its Development Cooperation Forum (UN-DCF). This has clear legitimacy and a universal mandate. It lacks resources, which could presumably be found through consolidation with the Working Party, and it would need to capture more interest by decision-makers right across the development community. They may be deterred now partly by the diffuse nature of the UN reporting processes the DCF feeds into, and partly by competition from the OECD/DAC Working Party itself. **Do Commonwealth members share this view? How could this shift come about? What political safeguards would they see as necessary to ensure there is no loss of momentum in such a transition?**

67. The final section picks up on a few selected areas which have been identified as important and timely in this paper, and where a Commonwealth input to the Busan process seems particularly relevant and feasible.

## **Six Suggested Action Areas for Commonwealth Leadership**

68. **Senior Finance Officials are invited to discuss the following six suggested areas for possible Commonwealth input to the Busan process.**

1. **Promoting differentiated treatment, South-South and triangular co-operation.** Commonwealth members could underscore the importance of a new development compact that differentiates according to country context and integrates the perspective of South-South co-operation. The Commonwealth is also well placed to accelerate the latter, including through “triangular” co-operation arrangements partly financed by its DAC members, and bring this learning to the Busan table. Do Commonwealth members support this position?
2. **Modelling a new international compact on transparency.** Do Commonwealth members agree on the principle of adopting a minimum common standard for development finance transparency as suggested above? If so, Commonwealth members could not only state this principle, but also demonstrate intent by deciding to adopt an IATI-equivalent standard (NB not requiring new countries to join IATI) right across the membership, starting a snowball effect ahead of Busan.
3. **Devising a common approach to shared risk management.** Building on the discussion of risk management above and extensive earlier design work by Canada and others, members could agree on key elements of a new approach to shared risk

management at country level, which could be tested in volunteer pairs of countries/partners. Do Commonwealth members agree with the concept of shared risk management? If so, members are asked to discuss key elements of this approach.

- 4. Promoting independent facilitation, mediation and peer review mechanisms.** Members could agree on the core mandates of third-party facilitation for mutual accountability, at country level and preferably regional and/or international level, and discuss what role the Commonwealth could play as arbitrator or ombudsman in support of such efforts. Do Commonwealth members agree on the need for independent facilitation, mediation and peer review mechanisms? If so, members are asked to discuss the core mandates. Members are also asked what role the Commonwealth could play as an arbitrator in support of such efforts?
- 5. Identifying key post-Busan monitoring areas.** Members could identify the minimum set of indicators, based on what they see as key areas for commitment post-Busan, on which they would strongly support country-level monitoring and periodic international review. Do Commonwealth members agree on the need for a post-Busan monitoring framework? If so, members are asked to discuss what these are?
- 6. Integrating aid effectiveness principles and climate change.** The Commonwealth is well placed to urge climate change negotiators to integrate the positive lessons of aid effectiveness, especially the paramount importance of external funding being anchored in national strategies and integrated in national delivery systems, in the design of future climate change financing facilities, especially for adaptation in vulnerable states. Do Commonwealth members agree with this approach?

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