

Aid Effectiveness



What does Aid Effectiveness really mean?

Aid effectiveness is **better aid**. Better aid is more effective in reducing poverty. Better aid is aid that is owned by the recipient country (e.g. development priorities are set by the country), harmonised among the multiple donors, predictable (the donor provides clear timetables for aid deliveries) and untied.

In March 2005 over one hundred Ministers, Heads of International Agencies and other Senior Officials have agreed to take concrete steps to increase the effectiveness of aid. These steps are set out in the Paris Declaration on Aid Effectiveness, whose key components include: i) **ownership**, ii) **harmonisation**, iii) **alignment**. Below, I will focus on the first two.

What is country ownership?

Developing countries should be the “owners” of their development processes: **they should place themselves in the driver’s seat of their own development**. They should be the ones setting their priorities and strategies for development, they should work towards improving their institutions, strengthening their systems for managing public resources and tackling corruption. At the same time, country ownership cannot be achieved only by the government. It requires the active participation and consultation of different multi-stakeholders, from the involvement of Parliaments - the people’s elected representatives - to citizens, civil society organisations and the private sector.

Ownership of development policies, however, cannot be achieved unless certain conditions put by donors on aid delivery modalities are removed: foremost **tying of aid**.

What is tied aid?

When a donor requires a recipient country to purchase goods and services from the donor country in the framework of a bilateral aid programme, the donor is tying its aid. This practice translates into extra costs for the developing country as the goods and services it is required to buy are normally more expensive than if sourced locally (without counting shipping costs and additional administration); not only, but it also limits any type of competition as the donor country not necessarily have competitive products and services. Furthermore, corruption is often another consequence of tied aid. The value of the aid provided by the donor in this form is substantially reduced, and it also often does not conform to the needs of the recipient country.

Although the **proportion of untied aid increased** from 75% in 2005 to 88% in 2007, donors should discontinue completely this practice. A handful of countries has already fully untied their aid policies (e.g. Luxembourg, the Netherlands and the UK). Despite recent increases, remaining European OECD countries still have some work to do. As of 2007, percentages of untied aid are the following: Italy (59,8%), Spain (89,1%), Portugal (58%), Germany (93,4%), Belgium (92%) and France (92,6%). The share of aid that is still tied in all these countries needs to be further reduced.

What is donor harmonisation?

After ownership, the second component embodied in the aid effectiveness agenda is harmonisation. Generally speaking harmonisation refers to simple coordination, starting with the **awareness of what other donors are doing in a particular sector, country or region**. Such awareness can be achieved through a variety of activities such as exchange of information and meetings to discuss and agree on policies and priorities. Coordination is a mean to keep donors informed among each other about their policies, missions, studies and planned activities. In Europe, for instance, the European Commission has provided a forum for donors to exchange views and participate in meetings aimed at identifying joint activities.

Through harmonisation, **donor countries coordinate of their actions and streamline their procedures** (e.g. financing, implementation etc..) in order to reduce costs and avoid needless duplication. There are numerous ways to improve harmonisation among donors, including: undertaking joint missions (the proportion of joint activities/missions is currently only around 20%) and joint analysis when working on same issues (proportion of joint analysis is only around 40%), coordinating efforts, adopting common practices and running joint aid programmes.

Why do we need harmonisation?

Recent years have seen a rise in the number of donors and aid delivery channels. Too many donors are concentrating on the same countries and sectors. According to estimates by the OECD/DAC (Development Assistance Committee) secretariat, 38 countries had 25 or more multilateral and DAC donors in 2005-06, with Mozambique hosting the highest number of donors

(30). The number of aid bilateral donors per se has skyrocketed from 10 000 to 80 000 over the past decade. Furthermore, the OECD 2008 Survey on Monitoring the Paris Declaration clearly shows the high transaction costs still associated with aid: in 2007, donors conducted 14,000 missions to the 55 countries surveyed, and only 18 percent of those were done with another donor. On average, countries host 260 donors a year: Vietnam had 752 in 2007, Tanzania 407, and Cambodia had 22 different donors in the health sector alone, with 109 separate projects.

New official donors, mainly from emerging economies, and private donors alike, have entered the scene: the global development finance system now encompasses much more than the “old” bilateral and multilateral donors. At the same time, each donor has its own policies, priorities and administrative requirements to which partner countries must conform. “More donors” has translated into more transactions of smaller sizes. In 2006 there were more than 70,000 aid transactions and the average project size was \$1.7 million.

As a consequence of such donor fragmentation, the administrations of recipient countries suffer from the number of interlocutors with whom they have to deal and their transaction costs are very high. To ensure efficient aid delivery and full ownership by developing countries of their development process, areas for consolidation must be identified. Most of all, a division of labour among donors is a prerequisite for addressing fragmentation, high transaction costs and poor coordination at country level. The **EU Code of Conduct** is a mean to achieve this.

What is the EU Code of Conduct?

Under the EU German Presidency in 2007, EU Member States agreed to the EU Code of Conduct on Complementarity and Division of Labour. The main contribution of this agreement in pushing forward the aid effectiveness agenda seats with the call for a **division of labour among member states** based on the comparative advantages of all actors. The idea behind it is that donors should build on their expertise rather than acquire new competencies in areas where other peers are already well performing. In these areas in fact they could delegate a lead donor as a focal point in charge of coordination.

What will be the main message of the UNMC in the Code of Conduct brochure?

The UNMC would like to see the EU Code of Conduct implemented. So far, implementation guidelines and strict timetables are lacking. Member States should

define the comparative advantages of their bilateral programmes. If countries organise themselves in such a way as to divide their work among them, we can finally achieve **three great outcomes**: i) a reduction in the number of donors involved in the same countries and sectors (e.g. let's avoid needless duplication!); ii) a lowering of transaction costs (e.g. fewer donors equals fewer missions, fewer costs); iii) overall simplification of in-country processes for recipients (e.g. partner countries don't have to deal with too many counterparts from the donor side...less of a headache for them!).

The EU should be instrumental in the implementation of this initiative considering the role it can play in helping donor countries map their geographic and sectoral strengths/preferences as well as in view of the fact that it accounts for more than half of total ODA.

What is Country Programmable Aid (CPA)?

CPA is the proportion of aid that developing countries can allocate or programme freely according to their needs. CPA is what is left of total ODA after one deducts humanitarian aid, debt relief, imputed student costs, administrative costs, food aid, in-donor country refugee costs and funding to NGOs. In practical terms, it is the percentage of ODA whose allocation is not been decided by the donor country!

According to the OECD's calculations, CPA represents only 46.8 percent of gross 2005 bilateral ODA across all DAC countries (equivalent to USD 47 billion). In the case of France, for instance, only 32% of aid can be used by partner countries to programme according to their needs. This means that the remaining 68% of aid allocated by France goes towards humanitarian aid, debt relief, administrative costs etc...rather than to the achievement of the MDGs. The programmable aid of some other European countries is even lower than that of France, as is the case for Austria (13%), Italy (21%) and Germany (30%).

CPA to least developed countries and other low-income countries is programmed to increase (in total by USD 6.7 billion) between 2005 and 2010, with the largest change going to Africa.

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