

More aid? Yes – and use it to reshape aid architecture

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Introduction

The UK Chancellor has proposed doubling aid by creating an International Financing Facility. Good news – and we should use the opportunity to reconsider the international architecture for delivering aid. In fact, it would be remiss to double aid without considering the apparatus for delivering such large amounts of money. Efficiency and effectiveness are key considerations, but there are also fundamental principles at stake, to do with the accountability of aid organisations and the quality of the partnership between rich and poor nations. These generate some big questions, about the future of the World Bank, the role of the UN, and, for European donors, improving the quality of aid from the European Union.

One option is to support the work of the World Bank, the IMF, and the Regional Development Banks in Africa, Asia and Latin America. A better option would be to use all or most of any new money to strengthen the UN as a counterweight to the big Banks and in so doing leverage change

in the UN to make it more effective. We have a widely respected Secretary General in Kofi Annan, but he presides over a UN development system which is incoherent and starved of funds. A trust fund which he managed could turn things round. We have an opportunity to launch change: the summit on the Millennium Development Goals to be held in 2005.

Development aid: the current architecture

How does aid work now? The Figure opposite summarises current flows. Total aid amounts to about US\$58 billion, net of loan repayments, from 21 major OECD donors and some others. Two thirds of the money is government-to-government, or bilateral aid. One third is multilateral aid, channelled through international organisations, including the EU. The World Bank Group and the Regional Development Banks disburse about 9% of net aid, the UN 8%. Only about 10% of aid is for humanitarian purposes: all the rest is for long-term development.

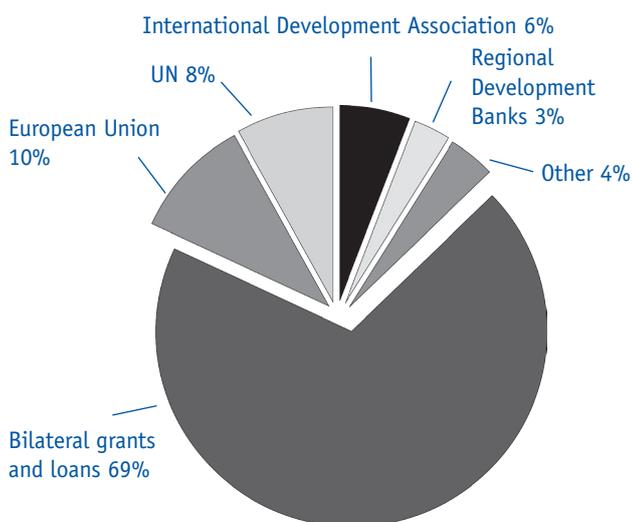
The governance arrangements vary. The World Bank is governed by a Board, in which national wealth dominates voting. UN agencies, funds and programmes all have their own governing bodies or executive councils, usually on a one member one vote basis. Bilateral donors are answerable to parliaments in donor countries. The EU programme is a hybrid. Half of it is spent under the authority of the EU budget, agreed jointly by the Council of Ministers and the European Parliament; half is provided under the provisions of the Cotonou Agreement, formally a treaty between the EU and 77 developing countries in Africa, the Caribbean and the Pacific. Cotonou is interesting because it has some provisions for joint decision-making about the implementation of the programme (Box 1).

Principles for a new aid architecture

The basic principles are well-established. Aid should be provided:

- According to need, with a particular eye on the key international target of reducing poverty by half by 2015;
- On a predictable basis;

Channelling aid to developing countries (2002)
(Total Official Development Assistance \$US58.3 bn)



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- In a spirit of partnership, involving genuine and two-way accountability, from recipients to donors, but also from donors to recipients (Box 2); and
- In the most efficient way possible.

Gordon Brown has picked up part of the consensus, arguing that we should ‘see development assistance as investment that is untied, targeted, where possible pooled internationally, conditional on reform, and cost effective in its delivery’. In addition, the application of the basic principles points to more multilateral aid, power-sharing in the governance of multilateral organisations, and greater accountability of the North to the South. There is certainly a strong demand from countries in the South for reform along these lines. For example, the New Partnership for African Development, an initiative by African presidents which UK Prime Minister Tony Blair strongly supports, has some tough things to say about the need for Northern aid agencies to be more accountable to the South.

Box 1 Reciprocal accountability? The Cotonou Agreement

The Cotonou Agreement between the EU and 77 ACP countries covers aid, trade and the political relationship. It is governed by a joint Council of Ministers on which all parties sit. If the provisions of the Agreement are broken, with respect to human rights, democratic principles, or the rule of law, then ‘appropriate measures’ may be taken, including suspension. The Council of Ministers acts as a court of appeal, but independent arbitration is also available. This framework has yet to be tested fully, but it has real potential and should be extended.

What should happen next . . .

The World Bank

The World Bank is the largest source of multilateral finance and has made good progress, for example in its commitment to poverty reduction as an overarching goal. It has defined the principles of a Comprehensive Development Framework: a long-term, holistic approach, partnership, and recipient country ownership and leadership. The big job outstanding is to move forward on the governance of the World Bank. Developing countries need a greater voice on the World Bank board. The Bank should also consider an accountable Ministerial body, as is the case with the EU. Such changes should be a precondition for receiving more money.

The UN

The UN has also reformed, but the pace of change has slackened. Like the World Bank, it offers the advantages of

Box 2 Partnership

Partnership is a much-used word in development cooperation. It can sometimes offer little more than a fig-leaf to hide covert conditionality, with accountability working one way, from the recipient to the donor. At its best, however, partnership really does offer a new way of doing business: genuine debate about policy, clear commitments on both sides, good procedures for independent review, and the possibility of redress if things go wrong. Many donors are moving in this direction: none, fully, has arrived.

multilateral aid: less political interference, greater credibility in developing countries, economies of scale, cost-effective procurement, democratic governance. There are still too many agencies, however, operating with insufficient coherence; there is too much political posturing; and the UN still has to win the trust of the big donors. Partly as a result, the UN does not receive enough money to reap the real economies of scale, and much of what it does receive is so heavily ear-marked (tied to particular purposes) as to undermine agency management. More money is key, but should be used expressly to drive reform. For example, Gordon Brown is right that more money should be pooled: donors should apply to UN agencies the same principles about integrated budget frameworks that they apply to the governments of developing countries. More important still, the Secretary General needs greater authority over the barons who run the specialised agencies. The way to do this is to concentrate extra aid in the Secretary General’s hands. A concrete proposal: create a new, development trust fund, in the hands of the SG.

The EU

The EU has committed to the Millennium Development Goals, has a new development policy, and has reorganised. The challenge now is implementation. The new Commissioner has a great deal to do.

The bilaterals

Too much aid is bilateral already, and new aid should not reinforce this inefficiency. Instead, bilateral aid should be held constant, while new resources are placed elsewhere.

To summarise

If we care about partnership and accountability, the priority for a new aid architecture is to rebuild the UN. The way to do this is to create a new trust fund managed by the Secretary General.

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