

MOVING OUT OF AID DEPENDENCY
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Remarks by Roy Culpeper, President, The North-South Institute¹

The North-South Institute has coordinated a research project entitled “Southern Perspectives on Reforming the International Development Architecture.” In these brief remarks I shall be drawing on the key findings of this project and their policy implications.

Background

The project was originally commissioned by the UK’s Department for International Development, and co-sponsored by the Swedish Ministry for Foreign Affairs, the Norwegian Ministry of Foreign Affairs, and the Canadian International Development Agency. It was prompted by the fact that most proposals to reform the international development architecture emanate from the North, that is, from the industrial countries and global agencies in which the North has a predominant voice, such as the Bretton Woods Institutions.

The objective of the project was to reach a better understanding of how the South would reform the international development architecture, if empowered to do so. The North-South Institute co-ordinated the project, in partnership with the Economic and Social Research Foundation of Tanzania. The design and implementation of the project was guided by a Steering Group of Southern practitioners, activists and experts. It was recognized at the outset that “the South” is and always has been heterogeneous, and that there are diverse views among and within developing countries.

Although aid policy and institutions were a principal focus of the project, “the international development architecture” was interpreted more broadly to encompass the trade and investment arenas. Moreover, a conclusion emerging from the first phase of the project was that the prevailing development paradigm is contested. Reforming the paradigm was seen to be of greater significance than reforming the architecture. Finally geopolitics was also considered to be of overarching significance.

Because of these considerations three theme papers were commissioned, on power imbalances and knowledge hierarchies; on policy coherence in and

¹ I am grateful for the collaboration of my colleague Bill Morton in the project and in the preparation of these remarks.

among the aid, trade and investment arenas; and on the impact of geopolitical security developments and the “war on terror” on aid policies and allocation. In addition five country studies were commissioned, on Bolivia, Burundi, Nigeria, Sri Lanka and Vietnam. (These papers and their authors are listed in the references.) While it was recognized that this constituted a small and not very representative sample of developing countries, nonetheless it was felt that the studies might yield some valuable insights as to how the development architecture is working on the ground and how it may be reformed.

Key Findings and Policy Implications

The following is a synthesis of the project’s principal conclusions and policy implications, drawing on the three theme papers and five country studies. These are related, where possible, to the main tenets of the Paris Declaration on Aid Effectiveness, bearing in mind the scope of the project was broader than “aid”.

1. Country ownership and leadership

As the Paris Declaration recognizes, aid effectiveness requires that partner countries exercise ownership, that is, leadership over their development priorities and strategies. In other words, it requires effective development strategies. But developing countries are constrained from altering the development paradigm. The project identified power imbalances in the development architecture, and the domination by the North of development policy thinking, as major stumbling-blocks to genuine country ownership and leadership. Chronic aid dependence and a large debt overhang were also seen as critical constraints to country ownership.

To alter the development paradigm, developing countries must invest in the generation of development knowledge, its legitimation and utilization in making actual policy choices that are appropriate to local contexts and circumstances.

- Donors can help by supporting such investments as long as support is offered without strings or policy conditions (e.g. through agencies such as IDRC);
- Developing countries and donors should also invest in building south-south collaboration on development knowledge, so that developing countries can draw lessons and learn from other countries’ experience, and use this to complement their own locally-derived development knowledge.

However, developing countries must broaden national ownership to include civil society, private sector, and representative institutions such as Parliament and

local government councils. It is not sufficient for ownership to be exercised by the national Executive on behalf of the country.

- It was found that the Poverty Reduction Strategy mechanism, as framed by the Bretton Woods institutions, is not suitable as a vehicle for national ownership, even with extensive consultations.
- Donors need to pull back and allow low-income countries to develop their own plans/ strategies and minimize policy-based conditionality connected to national development plans.

Developing countries should reduce their aid dependence and debt overhang to reduce conditionality and leverage of donors.

- Policies that bring about rapid economic growth (e.g. in Vietnam) make this happen automatically;
- As well, to facilitate an exit strategy from aid dependence, low-income countries should establish medium/long-term development financing scenarios that provide a roadmap for increased domestic resource mobilization, growth in export earnings, FDI and other non-aid resources.
- Exit strategies could include LICs' own "conditionalities" for continued (but time-limited) receipt of ODA (for instance, along the lines of Vietnam's decision to withdraw from the IMF PRGF, or Bolivia's recent decree on foreign grant resources)
- Developing countries should be given the policy space to develop their own development finance mechanisms, and allow greater room for experimentation and dynamism in the monetary, fiscal trade and financial arenas. On a regional basis this should include initiatives such as the Bank of the South. Donors should consider support for these initiatives.

2. Policy Coherence

Aid, trade, investment and other policies are often inconsistent by themselves and work at cross-purposes with each other, undermining desired development outcomes including economic growth and poverty reduction. But policy coherence begins at home. If donors' policies toward them are to be coherent, developing countries must themselves articulate and implement coherent national strategies and consistent priorities.

Developing countries should, individually, regionally, and globally, consider reviews of donor policies and programs, particularly with a view to increasing policy coherence in the aid, trade, investment and other arenas. (A precedent is the Washington-based Center for Global Development's "Commitment to

Development Index”. What is needed is an index reflecting developing-country perspectives and practices).

For their part, donors should also ensure coherence between aid, trade and investment policies so that they are consistent with development objectives and developing countries’ priorities.

- Donors should be more flexible on issues such as economic liberalization, institutional reform, and “good governance”.
- Donors must accept that developing countries’ national policy priorities may change (e.g. with new governments, or after elections).

3. Legitimacy

The international development architecture lacks legitimacy in the eyes of many developing country governments and much of civil society, for a number of well-established reasons. It is necessary first to rectify the imbalance in power between industrialized and developing countries:

- At the global level, through a more equitable balance in decision-making and voting power in the global economic organizations (IMF, WB, WTO).
- New mechanisms or processes of accountability are also required to ensure the legitimacy (from the perspective of southern stakeholders) of bilateral agencies (see below).
- At the country level less intrusive conditionality and leverage over developing country policies is needed.
- The legitimacy of the architecture would be enhanced by strengthening regional actors and the UN system.
- The geopolitical security imperatives related to the War on Terror have a pervasive and perverse impact on development, which must be overturned to restore legitimacy to the aid system.
- Major change is needed in how international agreements that directly impact developing countries, such as the Paris Declaration, are arrived at and agreed on; otherwise they will continue to lack legitimacy in the eyes of stakeholders, and there will be insufficient “buy-in” to reform measures.
- The OECD/DAC increasingly represents an inappropriate mechanism for determining international aid agreements and for setting the terms of aid relations and reform measures. Alternative mechanisms are required

where southern governments/ stakeholders have a leading role (see below).

4. Effectiveness

Finally, the international development architecture is regarded as ineffective in achieving key development objectives, e.g. the Millennium Development Goals. This is recognized in the OECD Paris Declaration. Greater mutual accountability between donors and recipients is imperative in order to enhance the effectiveness of aid. At present accountability is heavily weighted toward donors, i.e. there is need for more accountability by donors toward recipients.

- The DAC/ODA peer review process for individual OECD donors should be widened formally to include recipient and other developing-country participation.
- Accountability should be enhanced in each recipient country through more systematic monitoring and evaluation of donor performance. Precedents such as the Tanzania Independent Monitoring Group must be built upon.

Technical assistance is widely seen as ineffective and wasteful by recipients and some donors. Much more TA must be spent on local experts with greater local ownership and orientation, and more potential for local capacity building.

More budget support is needed to minimize multiple donor coordination and harmonization problems and to improve the quality of the budget process, via:

- Multi-year donor commitments and disbursements, streamlined procedures to strengthen predictability and lessen volatility.
- Donor funds should not be “off budget”, as is frequently the case, but instead should be integrated into recipients’ budgetary processes.
- A re-assessment of common funds is needed, with a speed-up of the transition from common funds to budget support.
- More division of labour is needed to reduce the number of active donors in each country and the associated administrative burden on recipients of dealing with a large number of insignificant donors.
- Greater emphasis on domestic resource mobilization is required to finance development and reinforce long-term sustainability.

- The trade and investment agenda must be altered to be more development-friendly and allow more policy space and time for developing countries.

References

The following constitute the key project documents on which this synthesis is based:

Background papers

Bill Morton, "Southern Writing on Reform of the International Development Architecture: a Review", The North-South Institute, Sept. 2005.

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