

Emerging Aid Architecture

Executive Summary

A doubling of aid to Africa (from US\$25 billion to US\$50 billion) will increase pressures on the aid architecture at a time when development partners are already grappling with the challenge of improving aid effectiveness. The recent trend has been towards an increase in special purpose grants, debt-forgiveness and emergency aid. These trends are likely to be short term, and increasingly budget support will replace traditional methods of administering aid. Increased aid volumes will bring about a corresponding need for accountability and donor harmonization.

Thus, the emerging aid architecture will have to address numerous challenges:

- Aid is frequently misallocated;
- Aid is often not aligned with national priorities and programmes;
- Aid delivery is not harmonized with national systems and processes;
- Donor practices and procedures are not coordinated and harmonized;
- Much bilateral aid is still tied;
- Aid is unpredictable; and,
- The problems with conditionality.

Any framework for aid has to be relevant and responsive to Africa's needs. Crucially, it must be flexible enough to adapt to the specific conditions and demands of Africa's diverse regions. Aid allocation systems need to become more transparent and their relationship with nascent African systems such as the African Peer Review Mechanism should be made more explicit.

A number of new instruments, such as the International Financing Facility, Tobin tax, and Millennium Challenge Account, have begun to address these issues. However, resolution will require increased efforts from donors and recipients alike.

TABLE OF CONTENTS

1. INTRODUCTION	3
2. THE NEW CONSENSUS ON AID AND A HISTORY OF UNMET COMMITMENTS	5
3. AN ANALYSIS OF THE CURRENT AID ARCHITECTURE	7
4. THE EMERGING AID ARCHITECTURE	14
5. ISSUES FOR DISCUSSION	21
6. ANNEXES	23
6. REFERENCES	34

1. Introduction

The purpose of this paper is to examine current proposals surrounding the development of the new aid architecture. This issue is crucial given the current commitments to scale up aid levels to assist African countries to achieve the Millennium Development Goals (MDGs) and to deliver sustained economic growth.

The last quarter-century has been characterized by a series of major initiatives aimed at helping Africa address its development challenges, the most famous of which was the Brandt Commission report. The recent past has seen a flurry of new initiatives and commitments on the part of Africa's development partners and the African leadership itself. These commitments include the Millennium Summit in September 1999, which endorsed the MDGs and started a process of global aid reform that is still unfolding; the Financing for Development Summit (Monterrey, 2002) at which donor nations pledged to increase aid to 0.7 percent of their GNP; the New Partnership for Africa's Development (NEPAD) – a framework for the continent's development; and the Kananaskis Summit of the G8 in June 2002, which endorsed NEPAD and agreed on a G8 Action Plan to support it. Three high-level meetings (Rome 2003, Marrakech 2004, and Paris 2005), comprehensively addressed the issues surrounding aid effectiveness and results for development. Taken together with the biggest ever increase of the International Development Association (IDA) – fourteen replenishments in over two decades and the G8 commitment to doubling aid for Africa by 2010, these developments suggest that there is a serious commitment to scaling up aid and reforming the aid architecture in Africa.

Notwithstanding the increased commitments, aid has not always been effective. The empirical economic literature on the contribution of aid to growth has found no evidence that aid significantly contributed to economic growth. This outcome

was in part attributed to poor governance in African countries and subsequently the support for aid declined in the 1980s and 90s. However, it is acknowledged that weaknesses in the aid architecture (cumbersome, inefficient, and costly delivery) also contributed significantly to the limited overall effectiveness of aid. Therefore, the architecture of aid needs to be reformed if the renewed enthusiasm for aid is to deliver results.

This paper is structured as follows: Section 1 briefly reviews the new consensus on aid. Section 2 provides a brief description of the current aid architecture focusing on two main issues: the quantity and quality of aid. Section 3 describes the emerging aid architecture and explores the following issues: the principles underpinning the new aid architecture; the dynamics of scaling up aid and its implications; the challenges of geographical allocation of aid; and aid governance. Finally, Section 4 presents a series of recommendations of necessary reform to the aid architecture.

2. The New Consensus on aid and a history of unmet commitments

Aid to Africa has not increased much since the 1980s, a period that was characterized by strong pessimism about aid and its contribution to economic development.¹ However, since 2000, with the publication of the influential article by Burnside and Dollar, and the adoption of the Millennium Declaration Goals (MDGs), there has been new optimism about the role of aid in delivering increased growth.² This optimism has been further amplified by the adoption of NEPAD by African leaders. NEPAD not only lays out a coherent Africa-wide plan of action on growth, but also articulates a vision for improved partnership between African governments and donors. The NEPAD agenda was ‘approved’ by Africa’s development partners who committed to support the agenda. The new commitment to increased aid was given further support when the international community pledged to increase aid to 0.7 percent of their Gross National Income (GNI), at the UN Conference on Financing for Development.

Additional commitments were made at the G8 Gleneagles Summit and the 2005 UN World Summit mid-term review of progress towards the MDGs. There are thus three main factors driving the new consensus on aid – the MDGs, NEPAD, and the Monterrey Consensus. The MDGs provide a framework for measuring progress; NEPAD represents the commitment of Africans to good economic policies; and the Monterrey Consensus represents the willingness of the international community to contribute to the development of poor countries.

¹ UN-DESA, World Economic and Social Survey, 2006: Financing for Development.

² Burnside and Dollar (2000) conclude that aid can promote growth in good policy environments.

Box 1: The Monterrey Consensus, 2002

The Monterrey Consensus (MC) is one of the best conceived expressions of the contemporary view that development cooperation should be based on partnership between developed and developing countries. It covers the full spectrum of issues relating to financing for development, comprising:

- ❑ Mobilization of domestic resources;
- ❑ Trade as an instrument of development financing;
- ❑ Private capital flows;
- ❑ Official development financing;
- ❑ Debt and development; and,
- ❑ Questions relating to the international financial system as a whole.

Source: UN DESA, 2005. World Economic and Social Survey 2005: Financing for Development; United Nations, 2002. Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March at www.un.org/esa/ffd/aconf198-11.pdf.

3. An Analysis of the Current Aid Architecture

This section reviews the quantitative and qualitative aspects of development aid, the unresolved issues relating to the adequate geographical allocation of aid, and some challenges to the scaling up of aid.

The current aid architecture is one characterized by traditional forms of aid delivery and government-donor partnerships. There are over one hundred donors and over a thousand project implementation units and donor missions every year by international partners. These impose considerable costs on countries and affect the effectiveness of aid. The current architecture is also weakened by low and unpredictable aid volumes, which also weaken overall effectiveness. These issues are taken up below.

3.1 The volume and composition of aid

The table in Annex A gives a detailed account of the Overseas Development Assistance (ODA) contributions in 2004 and 2005. Overall, aid disbursements increased from US\$79.5 billion in 2004 to \$104.5 billion in 2005, in real terms. This represented an increase of 31.4 percent. The average ODA/GNI ratio also increased from 0.42 percent in 2003 to 0.47 percent in 2005. However, despite strong commitments, the average ODA/GNI ratio of G8 countries stood at just 0.29 percent in 2005. Norway, Sweden, Denmark and Luxembourg are the only nations to have reached the 0.7 ODA/GNI target, while the United States, Portugal and Greece still allocate less than 0.25 percent of national income to ODA.

Over recent years aid volumes have increased, but as can be seen from Table 2, the composition of aid has begun to change. Aid allocated in the form of special purpose grants has increased significantly since 2001, along with potentially short-term increases in debt-forgiveness, and food and emergency aid. An

important point relating to the definition of aid is that OECD reporting rules allow DAC members to include non-transfer items such as debt cancellation, hosting of refugees in donor countries, and scholarships for foreign students studying in donor countries, in aid figures. The European Commission discourages this practice.³ The Joint European NGO Briefing dated 3 April, 2006 calculated that aid inflation of this kind for 2005 amounted to \$3.5 billion for France, \$2.96 billion for Germany, \$2.26 billion for U.K., and \$1.43 billion for Italy – a significant proportion of these countries total reported aid disbursements.

Table 2: Composition of Net ODA: less reliance by donors on special-purpose grants, 2004 (all levels are constant 2004 US\$ billions)

	2001	2003	2004	Increase in ODA in 2004	Increase in ODA from 2001-2004	Distribution of ODA from 2001 to 2004 (%)
DAC ODA	67.4	75.1	79.5	4.4	12.1	
ODA by type:						
Special-purpose grants	29.6	40.6	38.4	-2.2	8.8	73
<i>Debt-forgiveness</i>	3.5	9.1	7.1	-2.0	3.6	30
<i>Technical cooperation</i>	17.0	19.7	18.8	-0.9	1.9	15
<i>Food aid & emergency</i>	5.5	8.0	8.5	0.5	3.0	25
<i>Administrative costs</i>	3.7	3.8	4.0	0.2	0.3	2
Flexible bilateral ODA	14.8	13.2	16.0	2.8	1.2	10
Contributions to Multilaterals	23.0	21.4	25.1	3.8	2.1	17
Non-DAC ODA	1.6	3.7	3.7	0.0	2.2	
Grants by NGOs	8.7	10.9	11.4	0.5	2.6	

Source: OECD/DAC in 2006 GMR

³ "... The Monterrey Consensus underlines the need to ensure that resources provided for debt relief do not detract from ODA resources intended to be available for developing countries"; in European Commission "Financing for Development and Aid Effectiveness – The Challenges of Scaling Up EU Aid 2006 – 2010", 2006.

Net grants by NGOs are on the rise – they increased by 47.5 percent between 2000 and 2004. This evolution could be interpreted either as a more generous effort on the part of Western countries' civil society or a shift by DAC members from funding recipient countries' governments to use of their home-based NGO movements to bypass official channels for the delivery of aid. The latter possibility is given credence by figures which show that for nine out of the twenty-one DAC members reported, the share of ODA channelled through NGOs was 10 percent or more in 2003-2004.

OECD/DAC data also show that aid has been both variable and unpredictable. Between 2000 and 2002, total volumes decreased by 45 percent and then rose again significantly in 2004. Such inconsistency hinders the ability of recipient countries to plan for development, and affects the reliability of their long-term financial programming cycles. There has been progress on budget support; however, project and tied-aid continue to dominate as the main instruments for aid delivery.

3.2. Effectiveness of aid

Aid effectiveness is a function of both donor and recipient country policy and practices. On the government side, the main determinants of aid effectiveness include the quality of domestic strategies for growth and poverty reduction, the degree of political commitment, and the rate at which capacity and implementation issues are addressed. On the donor side, the following are the major issues or concerns relating to the quality of aid:

- ***Aid is misallocated.*** In the past, aid allocation generally followed geopolitical allegiances, rather than performance. While this bias has not disappeared, many donors now use more objective criteria to determine aid allocations, based on recipient countries level of poverty, institutional development and macroeconomic/political stability.

- ***Aid is often not aligned with national priorities and programmes.*** Even though PRSPs were introduced to provide a basis for aid, donors have sometimes failed to align aid with national development plans. Despite this governments may feel they have little choice but to accept aid, even if it is outside the framework of their national development programmes. Aid allocated to finance projects, which remains the dominant mode of aid delivery, is particularly susceptible to this problem.
- ***Aid delivery is not harmonized with national systems and processes.*** Aid delivery is rarely done through existing government machinery and institutional frameworks, as weak government systems lead to poor service delivery, which in turn lead donors to develop parallel systems in the form of project implementation units. From the point of view of an individual project this may make sense, but the overall result is a host of different systems which further undermine national capacities and threaten sustainability.
- ***Donor practices and procedures are not coordinated and harmonized.*** The efficiency of donor administrative policies and procedures vary widely. The Special Partnership on Africa Budget Support Working Group reports that administrative problems on the donor side accounted for 29 percent of disbursement delays. To reduce these problems, more needs to be done to streamline uncoordinated donor activities, including missions, analytic work, and dialogue.
- ***Much bilateral aid is still tied,*** undermining its efficiency, increasing costs and channeling much of the benefits back to the donor countries. Technical assistance remains particularly problematic since recruitment tends to be tied to funding sources, and is often driven by project needs rather than by a capacity building program at national or sectoral level.

- ***Aid is unpredictable.*** Most donors use a multi-year planning framework, but annual budgets often diverge from plans, even if they are subject to agreement. In the case of budget support, the SPA reports that 81 percent of 2003 commitments in Africa were disbursed, an improvement over previous years, but still insufficient to provide a solid basis for fiscal planning.
- ***Conditionality remains an issue.*** Some *ex ante* conditionality is inevitable, and can actually be helpful. In the 2004 budget support survey by SPA, African governments positively rated donor conditionalities, presumably because they helped reinforce discipline. However, there is concern that conditionalities have been donor driven rather than derived from national programmes and anchored in domestic accountability.

The Paris Declaration aims to provide a framework for resolving the problems with aid effectiveness identified above. In particular, it puts forward a framework for monitoring commitments and articulates the principles that underpin the creation of a new aid architecture (see Box 2).

Box 2: Principles of the New Aid Architecture

- Aid should be provided according to need and targeted to achieve the first MDG;
- Aid volume should increase (in order to help poor countries get out of a poverty trap);
- Aid should be provided on a predictable basis;
- Aid should be provided in a spirit of partnership involving genuine mutual accountability by all partners;
- Aid should be provided in the most efficient way that minimizes transaction costs. This can be achieved through harmonization, coherence, and alignment of donor programs, policies and reporting requirements;
- Aid should be conditioned on domestic policies; put differently, aid should be given on a selective basis.

Source: Paris High Level Panel on Aid Effectiveness (Paris Declaration)

In addition to the areas addressed by the Paris Declaration, three issues warrant further discussion in the context of the design of new aid architecture.⁴

- As was shown in Table 2, technical assistance is a sizable and growing component of ODA. Yet, it has been criticized for being costly, inappropriate for recipients' needs, and counter-productive to the aim of local capacity building.
- Excessive conditionality is also considered an obstacle to effective aid delivery because it creates a maze of requirements that hinder adequate policy formulation and paralyze program delivery.
- The third source of ineffective practice is politically-motivated allocation of aid, which stems from donor countries' predilection for support to governments

⁴ The foregoing discussion draws from the Joint European NGO Briefing entitled "EU Aid: Genuine Leadership or Misleading Figure? An Independent Analysis of European Aid Figures", April 3, 2006.

that are geo-politically important to them, and not the countries that need aid the most.

One last issue relates to the use of aid by donor countries as a substitute for faulty domestic agricultural and international trade policies. The last few rounds of World Trade Organization (WTO) talks have revealed the tendency of donor countries to subsidize their farm sectors in areas that are directly in competition with African farmers, thereby undercutting African countries on world markets. Other forms of trade barriers have also been in effect, and distorted world trade in agriculture. The resulting reduction in Africa's output and rise in poverty inspired the slogan of "Fair Trade, Not Aid". In this case, aid is arguably given for the wrong reasons altogether and cannot be effective. The problems that have been discussed above have provided the context for the development of the emerging aid architecture.

4. The Emerging Aid Architecture⁵

The architecture of aid has not changed fundamentally since the 1950s when the international community arrived at the consensus that poor countries needed assistance to escape the poverty trap.⁶ Skepticism and pessimism about aid has given way to optimism and the belief that aid can work in the right context. However, for aid to serve its purpose, aid architecture must change.

There are a number of reasons why the issue of aid architecture has currently taken center stage:

- It is expected that the volume of aid will increase significantly in coming years.
- The increased use of budget support as a means for disbursing aid means that the traditional methods for administering aid must change.
- The increase in focus on delivering tangible results instead of outcomes.
- Increasing frustration at the failure to effectively harmonize donor activities.

4.1 The Dynamics of scaling up of aid and its implications for New Aid Architecture

The justification, importance and challenges of scaling up development aid have been debated in a number of prominent reports.⁷ The key reasons for scaling up aid for Africa can be summarized as follows. Firstly, it is widely agreed that most Sub-Saharan African (SSA) countries are not on track to meet the MDGs unless a significant increase in the volume of aid occurs. Secondly, the Paris

⁵ This section draws on the Issues Paper prepared for the ECA African Plenary on poverty reduction strategies and the Millennium Development Goals organized in Cairo, Egypt, March 26-28, 2006.

⁶ For a discussion of the history of overseas development assistance see [UN World Economic and Social Survey 2006: Financing for Development](#)

⁷ See "Report of the High Level Panel on Financing for Development", United Nations, 2001, "The International Finance Facility", published by HM Treasury and DFID, January 2003, "Ending Africa's Poverty Trap" in Brookings Papers on Economic Activity, 1:2004, pages 114-240, "Our Common Interest: Report of the Commission for Africa", March 2005.

Declaration has created a new spirit of development aid and international cooperation that will make it easier to raise aid levels and make aid more effective. Thirdly, despite an improvement in the transparency of aid allocation mechanisms, aid to Africa remains lower than aid to other regions, which have lower development needs. Finally, from a purely humanitarian point of view, abject poverty and famine as witnessed in Africa over the last few years should no longer be acceptable to the conscience of the world. It is in regard to these considerations that DAC members have committed to scale up aid levels significantly over the period 2006-2015 (see Table 3 for EU commitments).

Table 3: Percentage of gross national income EU governments have pledged to give as overseas aid in the next ten years

Target year	EU 15 Member States		The 10 new EU Member States	
	Individual Minimum ODA/GNI (%)	Collective Average ODA/GNI (%)	Individual Minimum ODA/GNI (%)	Collective Average ODA/GNI (%)
2006	0.33	0,39	-	-
2010	0.51	0.56	country specific	0.17
2015	0.7	0.7	0.33	0.33

Source: Joint European NGO Briefing, 3 April, 2006.

However, several challenges stand in the way of increasing aid disbursements. While there is a broad consensus on the need to increase aid, little has been done to hold developed countries accountable for failure to meet their commitments. Moreover, the transition between the old and new aid architecture must be managed successfully.

There are a number of potential sources through which aid volumes can be increased in the future. The most important will be DAC members that are yet to

meet the 0.7 percent ODA/GNI commitment. Increased aid will also come from the new members of the EU who will have to comply with EU regulations that ODA should comprise no less than 0.33 percent of GNI. As current aid recipients continue to grow, the pool of potential donors will also grow. Thus, countries such as Korea (whose share has been growing), China, India, and Brazil are expected to contribute increased aid in the future.

A number of new instruments for mobilizing resources have been proposed. These include the UK International Financing Facility, a Tobin tax on financial transactions, the French proposal to tax air tickets, the US Millennium Challenge Account, and the Nigeria/South Africa Infrastructure Fund. Any scaling up of aid must consider each of these proposals, though an assessment of the merits of these proposals is beyond the scope of this paper.

4.2. The Challenge of Geographical Allocation of Aid

Any framework for aid has to be relevant and responsive to Africa's needs, crucially it must be flexible enough to adapt to the specific conditions and demands of Africa's diverse regions. There are regional and sub-regional programmes and investments, especially in trade, infrastructure, higher education, and health that require a concerted approach by donors. These regional public goods (trans-border goods) need to be financed and aid must be structured in such a manner so as to address these issues.⁸ Since 2000, the African development agenda has been characterized by two key aspects: increased regional integration; and formulation of regional positions on key economic issues – external debt, World Trade Organization (WTO) and Environmental Protection Agency (EPA) negotiations, NEPAD, and international diplomacy. This has given new impetus to regional organizations and led to the

⁸ See in this connection, Nwuke, K. 2005. "Exploring Options for Financing Regional Public Goods" in Hammouda, H. (ed) Financing Regional Integration in Africa

replacement of the Organization of African Unity (OAU) by the African Union (AU). It also led to increased efforts to strengthen attempts to rationalize Regional Economic Communities (RECs).

In the same vein, the responsibility for delivering solutions for issues such as conflict resolution, humanitarian interventions and development programming have been shifted to regional and sub-regional bodies. This calls for a thorough re-examination of the allocation of aid between African countries and regional bodies. The increasingly trans-national character of these key development challenges underscores the need for African nations to work together and develop a plan to justify additional donor support at the regional level and a significant shift to budget support in this regard.

Aid allocation systems need to become more transparent and their relationship with nascent African systems such as the African Peer Review Mechanism (APRM) should be made more explicit. Thirdly, the monitoring of donors calls for a continental approach, as was recognized in NEPAD's request to the ECA and OECD/DAC to conduct their mutual review. Finally, the need to review aid mechanisms to address the problem of shocks and instability calls for a coordinated African response and consideration should be given to having more regular consultations among African Finance Ministers on issues such as continental aid policy.

But there are challenges in this regard. Successful transition to enhanced aid disbursements to African and regional African bodies is predicated on three conditions. First, donors should accept full alignment to sub-regional strategies and priorities, while individual African countries accept to delegate policy prerogatives to African bodies and abide by sub-regional policies. Furthermore, in order to avoid a situation in which increased aid to regional bodies occurs as a result of a decrease in aid to countries, donors should consider making long term

funding commitments to regional bodies. Finally, if African and regional institutions are to undertake increased responsibility, they must take bold actions to increase capacity.

Despite these concerns, some progress has been made in recent years. Across the continent, a “mutual review” conducted in 2004 jointly by OECD/DAC and the ECA concluded that six African countries now have formal donor harmonization action plans, and discussions are underway in ten more. Sector programmes are gaining popularity and are maturing while there is close coordination of budget support in about ten African countries. However, the review also concluded that projects were still the dominant aid delivery modality; capacity development was both piecemeal and supply-driven by donors; and the coordination of aid was generally donor-driven. The Paris High Level Forum on Harmonization in February 2005 proposed some specific benchmarks to monitor progress in all these areas.

4.3. Aid policy and management: a country-led approach

Many of the issues highlighted in this paper require action and reform by donors. However, African leadership is also critical and can accomplish a great deal. The most important areas for government action include a sound growth and poverty reduction strategy, which has strong national ownership, and addressing capacity issues. Progress on these issues is vital to deliver results, and increase donor confidence of the capacity of African countries to absorb aid. Many countries such as Ghana, Zambia and Tanzania have made significant progress on this issue (See Box 3).

In addition, countries can improve the effectiveness of aid inflows by formulating explicit aid strategies to ensure increased coherence among policy objectives. These strategies can serve as an important starting point, from which recipient countries can clearly articulate a preference for particular aid instruments and

thus improve the coordination and effectiveness of aid in the future. Several good practices are developing in this regard across the continent, including joint assistance strategies (several donors agree to share the responsibility for supporting the PRS); delegated cooperation (one donor delegates resources in a sector to another); and the use of lead donors (one donor is entrusted by others to lead discussion with the government on sector strategy and assistance modalities).

Another important issue in aid management concerns the role of legislation, as some countries require external loans to have legislative approval. Given the ongoing debate surrounding issues such as debt sustainability, the lack of transparency involved in tied-aid, and the need for alignment of aid with national plans, parliamentary approval should always be sought to improve the legitimacy of aid.

Other crucial features in realizing country-led partnerships include ownership of the development plan design, strong government leadership and capacity, and clear institutional systems for aid coordination. Country-led partnership is more likely to occur where partnerships are institutionalized to strengthen civil society, the private sector as well as domestic institutions, and governance structures. Weaknesses in the country-led approach lead to problems of coordination and harmonization of donor practices and procedures, operation of parallel systems to the existing government systems, and failure to align aid with national priorities.

Box 3: Countries Taking Charge -Ghana Partnership Strategy

Zambia, Tanzania, and Ghana are examples where innovative changes to aid architecture have taken place at the country level. These countries have taken advantage of a new round of Poverty Reduction Strategy to agree new modalities for aid delivery. Ghana, for example, agreed with ten of its major donor partners a Framework Memorandum for Multi-Donor Budget Support (MDBS) as the common basis for supporting the implementation of Ghana Poverty Reduction Strategy (GPRS) II. Under the terms of the Memorandum, the Government of Ghana is to; make progress on agreed reforms; ensure that expenditure is consistent with macroeconomic stability as agreed in its Poverty Reduction and Growth Facility (PRGF) arrangement with the IMF; develop an appropriate monitoring and evaluation system; coordinate and organize semi-annual MDBS meetings; and provide agreed upon reports to the development partners. On the other hand, donors are expected to work in partnership with the GoG in facilitating the implementation of GPRS through direct budget support. They are also to coordinate with one another to ensure the effective sequencing of their disbursements to GoG.

This partnership strategy consists of three building blocs: a Results Matrix (which will show the alignment of donor projects to GPRS II results matrix); an Overview matrix (which presents an overview of donors' historical disbursements for the GPRS I and commitments to GPRS II); and a matrix on Aid harmonization and effectiveness. It is hoped that the new architecture for aid delivery in Ghana will result in improved dialogue between donors and the GoG, and provide benchmarks for performance assessment. The strategy also sets out a number of conditions which govern aid inflows, thus the strategy will harmonize donor policies and procedures and thus inter-alia minimize transaction costs, reduce tied aid, and increase predictability of donor flows.

Source: SPA Workshop Technical and Annual Plenary Meeting. Innovation in Partnerships at Country Level, La Palm Royal Beach Hotel Accra, Ghana www.spa-psa.org

Section 5. Issues for Discussion⁹

This paper has discussed some of the emerging issues related to aid architecture. The analysis in this paper shows that far reaching reform of the current aid architecture is necessary for real progress to be made. Not only have aid levels been insufficient to ensure poverty reduction, they have generally been poorly aligned with national poverty reduction strategies. There are also several problems with ensuring aid effectiveness: aid is inadequately harmonized, unpredictable, and places a heavy burden on African governments. Resolving these issues will require action by both donors and African governments.

The ECA African Plenary on the PRSPs and MDGs in Cairo reviewed these issues and highlighted a number of issues for discussion, some of which we reproduce below:

- How can African policymakers increase dialogue with development partners to improve aid predictability and move to longer-term aid commitments?
- What concrete action do donors need to take to coordinate and harmonize their aid delivery processes to minimize transaction costs and reflect the national priorities articulated in national development programs?
- Should African policymakers insist on sector and budget support as the preferred aid delivery modalities? What steps need to be taken, in parallel, to improve national systems of governance and accountability in the use of aid resources?

⁹ See Outcome Document of the ECA African Plenary on Poverty Reduction Strategies and the Millennium Development Goals in Africa, available online at www.uneca.org.

- How can the AU Commission, in collaboration with Member States, institute “mutual accountability” systems to systematically monitor the effectiveness of aid, particularly with regards to donors’ compliance with their commitments to support African countries?
- How can the AU play a greater role in institutionalizing aid management and monitoring systems at the continental level, in order to ensure effective use of aid and facilitate the sharing of Africa-wide experiences with aid?
- How should African governments promote greater awareness about initiatives and declarations on aid effectiveness, such as the Paris Declaration, in order to mobilize parliaments, civil society, and other stakeholders to take a more active role in monitoring their implementation?

Annex A: Net Official Development Assistance in 2004/5

COUNTRY	ODA 2004		ODA 2005			% CHANGE 2004 TO 2005 (1)
	US\$ MILL. CURRENT	ODA/ GNI %	US\$ MILL. CURRENT	ODA/ GNI %	US\$ MILL. CURRENT & E. RATE (1)	
Australia	1460	0.25	1666	0.25	1544	5.7
Austria	678	0.23	1552	0.52	1519	124.1
Belgium	1463	0.41	1975	0.53	1936	32.1
Canada	2599	0.27	3731	0.34	1387	30.3
Denmark	2037	0.85	2107	0.81	2074	1.8
Finland	680	0.37	897	0.47	878	29.2
France	8473	0.41	10059	0.47	9925	17.1
Germany	7534	0.28	9915	0.35	9847	30.7
Greece	45	0.23	535	0.24	518	11.4
Ireland	607	0.39	692	0.41	676	11.4
Italy	2462	0.15	5053	0.29	4921	99.9
Japan	8922	0.19	13101	0.28	13486	51.2
Luxembourg	236	0.83	264	0.87	255	8.4
Netherlands	4204	0.73	5131	0.82	5052	20.2
New Zealand	212	0.23	274	0.27	252	18.7
Norway	2199	0.87	2775	0.93	2485	13
Portugal	311	0.63	367	0.21	361	-65
Spain	2437	0.24	3123	0.29	3012	23.6
Sweden	2722	0.78	3280	0.92	3295	21
Switzerland	1545	0.41	1771	0.44	1761	14
UK	7883	0.36	10754	0.48	10627	34.8
US	19705	0.17	27437	0.22	26726	35.6
TOTAL DAC	79553	0.26	106477	0.33	104537	31.4
AVERAGE COUNTRY EFFORT				0.47		
Memo item Included above						
EC	8704		9629		9458	8.7
DAC EU COMB.	42910	0.35	55704	0.44	54896	27.9
G8 COUNTRIES	80 068	0.29	57 578	0.22	78 920	37.1
NON-G8 COUNTRIES	26 409	0.50	21 976	0.45	25 617	16.6
NON DAC COUNTRIES						
Czech Republic	108	0.11	131	0.11	122	12.6
Korea	423	0.06	744	0.09	665	57.1
Poland	118	0.05	283	0.09	236	101.12
Slovak Republic	28	0.07	56	0.12	53	87.7

Source (2): OECD 30 March 2006.

NOTES to table 1:

- (1) Taking account of both inflation and exchange rate movements
- (2) The data for 2005 are preliminary pending detailed final data to be published in December 2006. The data are standardized on calendar year basis for all donors, so may differ from fiscal year data available in countries' budget accounts. See www.oecd.org/dac for more details and for updated data.

Annex B: An Economic Commission for Africa (ECA)

Proposal for the New Architecture for Scaling up Aid

This Annex outline the salient features of a new aid architecture that will be informed by the past and seek to remedy some of its shortcomings. Three key areas will be covered: a) the volume and composition of scaled up aid, b) the new instruments and sources of funding of scaled up aid, and c) the governance and administration of the new scaled up aid mechanism.

4.1. Volume and composition of scaled up aid

The question regarding the appropriate amount of scaled up aid has been at the centre of the debate on development aid for quite some time. Three authoritative studies have provided consensual quantitative answers to it. The United Nations Report of the High-Level Panel on Financing for Development estimates that an extra U.S. \$50 billion per year of official development assistance will be necessary to meet the International Development Goals and that the broader need for ODA is much higher than that amount. In a World Bank study, the estimated additional aid needed to reach the MDGs is in the range of U.S. \$40-70 billion. The Report of the Commission for Africa proposes to double aid for Africa by 2008-2010 and reach the level of U.S. \$52 billion.¹⁰ In summary, the commonly held view is that for the period 2006-2010, additional funding in the amount of approximately U.S. \$50 billion is needed to help Africa face its development challenges.

The Report of the Commission for Africa gives the most recent estimates of the amounts needed and a breakdown of the use of the funds. Table 4 provides an estimate of the annual funding needed based on two scenarios: a) when the

¹⁰ See Chapter 9, paragraph 125.

absorptive capacity of African countries is taken into account and b) when it is not taken into account. The table shows that under the constrained scenario, African countries could contribute up to one third of the financing requirements. But the total amount would fall short of the \$50 billion needed. This underscores the urgency of enhancing African countries capacity so that they can formulate more ambitious development strategies and adequately absorb the higher level of funding that would be needed to implement them. Given the novelty of the proposed scheme, a review could be conducted at the end of 2010 and plans be set up for the period 2011-2015.

Table 4. Annual Financing Needs for African Countries based on Recommendations of the Commission for Africa for the period 2006-2010, in Billion U.S. Dollars

FUNDING SOURCE	CONSTRAINED AMOUNT	UNCONSTRAINED AMOUNT
Total financing needed	37.5	75.0
Domestic resources	12.5	12.5
Additional aid	25.0	62.5

N.B. Constrained amount means taking account of constraints of absorptive capacity; Unconstrained means that absorptive capacity is not considered in the calculations.

Source: Adapted from Table 9.2.b of the Report of the Commission for Africa, March 2005, page. 317

Table 5 summarizes the actual development needs of Africa and the areas of priority as identified by the Commission for Africa. It shows that Education, Health and Growth account for two thirds of the proposed expenditures, and 75% when HIV and AIDS is included.

Table 5: Additional Annual Public Expenditures Needed to Implement the Recommendations of the Commission for Africa (taking no account of absorptive capacity)

Priority sector	Cost in Bln U.S. Dollars	Percentage of total
Governance	\$3.00	4.0
Peace and Security	\$1.50	2.0
HIV and AIDS	\$9.75	13.0
Education	\$7.50	10.0
Health	\$19.50	26.0
Social inclusion	\$3.75	5.0
Growth, infrastructure and trade	\$20.25	27.0
Mitigation of shocks	\$3.75	5.0
Contingencies	\$5.25	7.0
Total	\$75.00	100.0

Source: Report of the Commission for Africa, March 2005, Table 9.2.a, page 317.

4.2. Instruments of scaled up aid and new sources of funding

Scaled up aid of the proposed magnitude will require changes in the design of the current aid architecture. The following changes are proposed.

1. Scaled up aid should be organized in two pools namely the Development Pool and the Common Pool. The purpose of the Development Pool is to provide support for African countries specifically and exclusively in their pursuit of the MDGs. The Common Pool would serve to support economic growth programmes of individual countries and all the programmes of the regional organizations such as the African Union (AU) and the Regional Economic Communities (RECs). The pool system is proposed to ensure donor alignment and harmonization and enhance recipient countries' ownership of the programmes.
2. The two Pools would provide funding in the form of grants only and would replace all facilities that give concessionary loans to African countries. The Development Pool would be available for African countries with a per capita GNI of \$1,000. The Common Pool would be open to all African countries of the African Union and RECs.

3. Private sector investors could be encouraged to participate in the Common Pool in joint ventures and their non-grant investments would be on commercial terms (equity investment). Civil Society could also be encouraged to participate in both Pools through charitable donations or through purchase of non-refundable, non income-bearing development shares.
4. The donor community would provide funding support through ODA, the International Finance Facility (IFF) and international levies such as the Airline Ticket tax and Exceptional Special Drawing Rights issued by the IMF. Other initiatives can be considered.
5. African countries would contribute to the scaled up funding through their own tax revenues and through a series of levies. These levies would include charging one penny of additional excise tax for each pack of cigarette sold (Penny-A-Pack or PAP tax), a dime for each bottle of alcoholic beverage (Dime-A-Bottle or DAB tax) and a Dollar for each international personal money transfer (Dollar-A-Transfer or DAT tax).
6. In order to foster close coordination and harmonization between existing ODA and the scaled up aid programme, DAC members would be urged to transfer the equivalent of 0.1% of their GNI to the Development Pool in 2008 and at least 0.5% of their GNI by 2012. This requirement would not apply for the Common Pool given its more discretionary nature.

4.3. Governance and Administration of the new Aid Architecture

In the light of the discussion of the limitations of the existing aid machinery presented above, the following governance and administration setup is proposed.

1. Countries that apply to the Development Pool would be requested to submit a PRSP document or a Strategy for Accelerated Growth. For the Common Pool, standard economic policy documents such as Sector-Wide Investment Programmes or NEPAD implementation Programmes, would be required.

2. For each document submitted to support a funding request, a non-binding written observations would be requested from the World Bank, the IMF and the African Development Bank (AfDB).
3. International Development Finance Institutions such as the World Bank, the IMF and the AfDB would be encouraged to delegate the two Pools to manage their concessionary finance facilities in the two Pools, not separately. With the consent of contributing donors, all World Bank IDA funds would be immediately delegated to the Development Pool and IDA would be terminated. The practice of trust funds would be kept to a minimum in order to ensure full fungibility of development aid and to avoid politicisation or tying of aid.
4. The two Pools would be administered by an Aid Council for Africa (ACA) that would report to the Secretary General of the United Nations. The Council would include representatives of donor countries (DAC and non DAC), of African countries and of the private sector and civil society. The African Union, World Bank, IMF, AfDB and OECD would provide technical support and have observer status.
5. The funds would be administered by the World Bank and the African Development Bank. By delegation of the Council, the two banks would have custody of the funds, make the disbursements, monitor the programmes and prepare the reports.

Table 6. Proposed Architecture for Financing of Africa's Development

Panel A. FINANCING	Development Pool (DP)	Common Pool (CP)
Initial contribution	TBD	TBD
Annual contribution amount	TBD	TBD
Funding sources Foreign contributions	<p>Bilateral: - ODA expenditure - IFF</p> <p>Multilateral: - Reserve Draw-down</p> <p>International levies: - Airline Ticket (AT) Tax - Special Drawing Rights (IMF)</p>	<p>Bilateral: - ODA expenditure - IFF</p>
Africa's contributions	<p>Governments: Tax revenues</p> <p>International levies: - Penny-A-Pack (PAP) Cigarette tax - Dime-A-Bottle (DAB) Alcohol tax - Dollar-A-Transfer (DAT) tax on international personal bank transfers</p>	<p>Governments: Tax revenues</p>
Private sector contributions	<p>Donations</p> <p>Import price reductions</p>	Private investment flows

Civil Society contributions	Charitable donations Volunteer work	Purchase of development shares
Terms of funding for recipients	Pure grants for all sources	Pure grants for foreign, African and Civil Society contributions Market profitability for Private Sector investments
Timetable of Funding delegation	DAC countries to transfer to Pool 0.1% of GNI in 2008 and 0.5% of GNI by 2012.	No mandatory transfer required
Duration of pool	Pool expires in 2015	Pool expires in 2015
Panel B. ELIGIBILITY		
Type of support	Budget support	Economic growth projects
Recipients	Least Developed African countries	All African countries African Union (AU) Regional Economic Communities (RECs)
Eligibility threshold	Per Capita GNI less than \$1000 Debt Service Ratio higher than 10%	None
Submission document	PRSP or Accelerated Growth Strategy	Country Sector-Wide Investment projects NEPAD implementation documents RECs Implementation documents
Institutional external vetting	Non-objection by WB, IMF, ADB	Non-objection by WB, IMF, ADB
Main conditionality	Observance of governance requirements and expenditure standards	Observance of governance requirements and expenditure standards

		Evidence of economic impact
PANEL C: GOVERNANCE, MONITORING and REPORTING		
Governance body	African Council for Aid	African Council for Aid
Composition of Council	<ul style="list-style-type: none"> - Donors - African countries - Private sector and Civil Society 	<ul style="list-style-type: none"> - Donors - African countries - Private sector and Civil Society
Observers	WB, IMF, AfdB, AU, OECD	WB, IMF, AfdB, AU, OECD
Administration of funds	WB and AfDB	WB and AfDB

TABLE 3: SHARE OF DEBT RELIEF GRANTS IN NET OFFICIAL DEVELOPMENT ASSISTANCE

Preliminary data for 2005

	ODA USD million	of which: Debt relief grants	Percent change 2004 to 2005 (1)
	current		Without debt relief grants
Australia	1 666	9	6.1
Austria	1 552	901	9.0
Belgium	1 975	471	17.2
Canada	3 731	455	17.8
Denmark	2 107	20	0.8
Finland	897	150	11.6
France	10 059	3 199	0.0
Germany	9 915	3.573	-9.8
Greece	535	-	11.4
Ireland	692	0	11.4
Italy	5 053	1680	40.0
Japan	13 101	3553	12.1
Luxembourg	264	-	8.4
Netherlands	5 131	410	16.6
New Zealand	274	-	18.7
Norway	2 775	25	12.6
Portugal	367	3	-65.1
Spain	3 123	498	13.7
Sweden	3 280	53	20.3
Switzerland	1 771	224	0.1
United Kingdom	10 754	3 699	-1.7
United States	27 457	4 073	16.2
TOTAL DAC	106 477	22 995	8.7
<hr/>			
Memo Items included in the above:			
EC	9 629	-	8.7
DAC EU countries combined	55 704	14 657	3.8

G7 countries	80 068	20 232	8.9
Non-G7 countries	26 409	2 763	8.3
Non-DAC Countries:			
Czech Republic	131	10	15.8
Korea	744	-	57.1
Poland	283	0	101.0
Slovak Republic	56	-	87.7

(1) Taking account of both inflation and exchange rate movements.

Source: OECD, 30 March 2006.

References

Annan, K. (2005) In Larger Freedom: Towards Development, Security and Human Rights for All. United Nations: Report of the Secretary General.

Burnside, C. and D. Dollar. (2000) "Aid, Policies and Growth." *American Economic Review*, 90 (4): 847-868.

Commission for Africa. (2005) Our Common Interest: Report of the Commission for Africa

Nwuke, K. (2005) "Exploring Options for Financing Regional Public Goods," in Hammouda, H. (ed.) *Financing Regional Integration in Africa*.

Johnson, A.; M. Martin; and H. Bargawi. (2004) "The effectiveness of Aid to Africa since the HIPC Initiative: Issues, Evidence and Possible Areas for Action", Background paper for Economic Commission for Africa.

OECD/DAC. (2005) Outcome of the High-level forum on Aid Effectiveness. Paris Declaration, March 2005.

Radelet, Steve, Michael Clemens, and Rikhil Bhavnani. (2004) *Aid and Growth: The Current Debate and Some New Evidence*. Centre for Global Development.

Sachs, J.D., J. McArthur, G. Schmidt-Traub, M. Kruk, C. Bahadur, M. Faye, and G. McCord (2004) "Ending Africa's Poverty Trap." *Brookings Papers on Economic Activity* (1): 117-216.

Strategic Partnership with Africa. (2005) “SPA 7 – A New Role for a New Era: An Options Paper”.

United Nations Department for Economic and Social Affairs. (2005) World Economic and Social Survey 2005: Financing for Development.

United Nations Economic Commission for Africa. (2006) “Issues Paper prepared for the African Plenary on Poverty Reduction Strategy Papers and the Millennium Development Goals”, Cairo, Egypt March 26-28, 2006.

..... (2006, forthcoming) “Capital Flows and their Impact on Growth”. Economic Report on Africa.

..... (2006) “Outcome Document of the African Plenary on Poverty Reduction Strategy Papers and the Millennium Development Goals”, Cairo, Egypt March 26-28, 2006.

..... (2005) “Report on Mutual Accountability”.

United Nations Millennium Project. (2005) “Investing in Development”.

World Bank. (2006) Global Monitoring Report 2006. Washington, DC

..... (2005) Africa Action Plan 2005.

World Bank. (1998) Assessing Aid: What Works, What Doesn't and Why. World Bank Policy Research Report. Oxford University Press, New York