

NGO Statement on Aid Effectiveness

25/02/2005

Twenty -Six NGOs call on donors to be bolder in their vision and commitments on aid effectiveness.

1. NGOs from North and South met on 3rd February to discuss with donor and creditor representatives ahead of the Second Forum on aid harmonization. This dialogue was a welcome step but as yet has not translated into specific commitments. NGO representatives following this process would like to make the following points.

2. The current draft of the Paris Declaration on Aid Effectiveness[1] fails to go far enough in tackling the fundamental obstacles that prevent aid from going to those people who need it most. Representatives of donor and partner countries must be bolder both in vision and commitments if there is to be any hope of creating a new aid architecture that will help us achieve the United Nation's Millennium Development Goals by 2015.

3. Our organizations believe this declaration is important and much needed. However, at present it fails to address one of the fundamental problems with aid delivery – how it is allocated between countries – and does not go nearly far enough on national ownership over development policies and procedures, building developing country capacity, enhancing aid predictability and untying aid. The NGOs consider that donors and recipients share responsibility for making aid work.

4. The Draft Paris Declaration has some indicators. However a number of important issues in the declaration have no indicator to match them and a number of the existing indicators are very weak and vague. Ministers need to agree and commit to a set of time-bound and meaningful targets. They should also agree to ensure that robust monitoring and reporting mechanisms are in place at country and international level to ensure the Declaration is acted upon. Without these the declaration will sadly be of little practical use, much like its predecessor the Rome Declaration on Harmonisation on which implementation has been far too slow.

5. NGOs consider that the good principles in the Paris draft Declaration cannot really be put into practice without a profound reform of the aid regime. This must include the more democratic governance of the international financial institutions.

6. In order for the Paris Declaration on Aid Effectiveness to make a real difference to the way aid is delivered it is vital that the final version includes:

A commitment by all donors to increase the current amount of aid that goes to least developed countries and ensure that at least 20% of aid is allocated to the improvement of basic social services like education, health care, water supplies and sanitation. Aid will make the greatest impact if it is spent on the poorest people. Currently, only 22.4% of bilateral overseas development aid (ODA) goes to the least developed countries in the world.[2] Donors not only need to improve this amount dramatically, but they also need to live up to the commitments they made in 1995 at the World Summit for Social Development, where they pledged to spend 20% of ODA on basic social services in developing countries. Without movement in both areas, there is little hope that aid will move from being in the business of politics to being in the business of poverty reduction.

It is also vital that the final declaration is more ambitious on:

7. Reducing tied aid: The draft declaration has extremely weak text on this issue, and no specific indicator. We demand that it commit donors to fully untie all aid, including food aid and technical assistance, to all developing countries in the next five years.

Currently, around 40% - 45% of total bilateral aid remains tied. It has been clearly documented that tying aid raises the cost of many goods, services and works by 15% to 30% on average, and by as much as 40% or more for food aid. The OECD calculated on this basis that the direct cost of tied aid in 2002 reduced the actual value of total bilateral aid by as much as USD 5 to USD 7 billion in 2002.[3]

8. i. Enhancing country ownership: Strengthening national ownership over development policies and procedures is essential to enhancing aid effectiveness. Indeed, national ownership based on strong civil society participation is a preliminary condition for all donor harmonization and alignment activities. A process of harmonisation and alignment without real ownership could represent a further encroachment by donors on national policy-making.

ii. Currently, the Poverty Reduction Strategy Paper (PRSP) one of the principle instruments for facilitating greater ownership is not delivering results, as World Bank and IMF evaluations have demonstrated. [4] The current draft declaration does not indicate any donor responsibility to create the conditions for Poverty Reduction Strategy Paper process to work better. Part of the problem is that donors have not sufficiently adapted their programs to support PRSP priorities. In light of this, the declaration should commit donors to transforming their funding systems and modalities to support country PRS processes and systems, rather than the other way round, which has too often been the case up until now.

iii. Donors need to draw their conditions from national poverty reduction strategies, which have been produced in a participative manner. However, where this is not possible, the declaration should commit donors to setting conditions in a broad and consultative forum, where multilateral and bilateral donors are present, alongside civil society, government and parliamentarians. All donor conditions must be made public so that vital parliamentary and civil society oversight and input can be ensured.

iv. In addition, the declaration should commit donors to a set of ambitious targets for reducing the overall number of donor imposed conditions on developing countries. In order to ensure this, the declaration should call on donors to produce an annual report charting their progress on reducing conditionality. Current research, including the OECD DAC survey on aid harmonization (2004) indicates that donors have made very little movement in this area, despite it being a key commitment in the Rome Declaration on Harmonisation in 2002.

v. Finally, the declaration must include a call for an end to all harmful economic policy conditionality. If the governments and people of poor countries are to have control over their future, and if aid is to be an effective tool for poverty eradication, donor imposed economic policy conditionalities, such as trade liberalisation, deregulation, fiscal austerity and privatisation must be abandoned.

9. i. Strengthening Capacity: The declaration puts the responsibility for capacity strengthening on Southern countries. The declaration should commit donors to ensuring that they will fund the capacity building needs of partner countries commensurate with meeting the Millennium Development Goals (MDGs). Nearly all of the regional workshops held by the OECD DAC highlighted the dire need for greater capacity building in developing countries. Support for capacity developments should be delivered according to needs identified by host governments and civil society organisations and not donors.

ii. The declaration should be stronger in pressing for a reduction in the use of parallel structures to manage and implement donor projects, given the evidence that this weakens capacity and distorts incentives and accountability in the public sector. This should not be contingent on partner countries 'meeting acceptable levels of performance'. The declaration should commit donors to the use of Project Implementation Units only in exceptional circumstances, and agree to a 75% reduction in the use of PIUs by 2010.'

10. i. Providing greater aid predictability: The declaration should commit donors to delivering all aid pledges in full and within a defined timeframe. A target should be set for 100% on-schedule disbursements of planned aid by 2010. The declaration also needs to provide a clear target of how much aid should be planned and committed over a multi-year framework by donors in the next five years, rather than leaving this to monitoring over time. Currently, only 70% of ODA pledged is actually delivered. ODA flows are highly volatile: four times more, on average, than recipient countries' GDP.[5] Donors need to work towards ensuring far greater stability of aid flows in the near future, examining disbursement issues, donor budget procedures and the impact of conditionality on aid flows. Importantly, donors need to ensure appropriate safeguards are in place to avoid donor harmonisation practices do not result in further aid volatility.²

ii. Finally, donors need to ensure that their funding is sufficiently adaptable to partner country needs.

Donors need to ensure that there is greater flexibility for aid increases to help partner countries respond adequately to external and internal shocks.

11. Corruption: The declaration should commit all donors and partner countries to sign and ratify the United Nations Convention against Corruption by 2005.[6]Corruption is a function of both donor and recipient activities and is a major obstacle to greater aid effectiveness diverting funds intended for development, undermining a government's ability to provide basic services, feeding inequality and injustice, and discouraging foreign investment.

11. i. Mutual Accountability: Finally, the declaration will be of little merit, if like its predecessor, the Rome Declaration, donors and developing countries are not held to account for implementing its agenda. A new framework of mutual accountability needs to be set up, both at the country and international level. At the country level there is a real need for a set of country targets to be agreed upon between donors, governments and civil society with the aim of improving the quality of aid and accelerating its disbursement. The matrix should be regularly monitored and effective sanctions imposed on donors who fail to meet their commitments.

ii. At the international level there is a critical need for an independent international structure, which enables developing countries to hold donors to account. This should be based on internationally agreed time-specific targets, which are regularly monitored with civil society participation and publicly reported on. This structure could be housed in existing regional or international institutions which are owned by developing country governments, such as NEPAD. Alternatively, it could be housed under the UN's structures in the form of a UN ombudsman on aid effectiveness.

We demand that these recommendations are included in the final version of the declaration. These steps are essential if we are to create a poverty-focused aid system which will meet the needs of poorer people.

Civil society groups plan to increase their roles in monitoring aid spending and encouraging public debate about aid performance and impact.

Signatories

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World Vision UK

World Vision, Germany

[1]OECD DAC, Second Consultative Draft of the Paris Declaration on Aid Effectiveness 2005

[2]OECD DAC Untying ODA progress report 2004

[3]Draft Report on Aid Effectiveness for the Second High-Level Forum, OECD DAC 2004

[4]IMF Independent Evaluation Office, Report on the Evaluation of Poverty Reduction Strategy Papers (PRSPs) and the Poverty Reduction Growth Facility (PRGF), May 2004. World Bank, Operations Evaluation Department ,The Poverty Reduction Strategy Initiative: An Independent Evaluation of the World Bank's Support Through 2003, 2004

[5]International Working Group on Innovative Financing Instruments Report December 2004

[6]The UN Convention on Corruption was adopted by the General Assembly of the United Nations on 31 October 2003 at United Nations Headquarters in New York (Resolution 58/4). It is open for signatures until 9 December 2005, in accordance with article 67 (1) of the Convention.