

Country Ownership of Policy Reforms and Aid Effectiveness: The Challenge of Enhancing the Policy Space for Developing Countries in Aid Relationships

Statement by Louis Kasekende, Chief Economist, African Development Bank

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Introduction

I would like to begin by thanking the organisers of this workshop for inviting me to deliver a keynote dinner address. As you may know, the African Development Bank recently established and strengthened the Office of the Chief Economist, with a view to giving greater visibility to knowledge management and sharing, as well ensuring an African voice in international development debates and agenda. In fulfilling our mandate, we look forward to working with a number of institutions, both within and outside Africa, including yours. The theme of the workshop: *Aid as Negotiation* is timely given the current focus on aid and Africa by the international community, and our continued elusive quest for aid effectiveness and development, especially in Africa, where the link between aid and growth is weakest. Current thinking in international development practice has begun to put more emphasis on issues of ownership, building partnerships and mutual accountability as the best way forward.

In my statement this evening, I would like to address the issue of aid effectiveness putting emphasis on the need for developing countries to be given more responsibility for formulating reform programmes as well as for implementing them. I will begin my address by reviewing the emerging landscape in development cooperation, and how it is influencing the aid effectiveness

agenda. I will then discuss the importance of capacity development within recipient countries, which is critical in making the right policy choices, and the need for donors to be willing to relinquish control. In so doing, I will discuss some of the critical ingredients of strengthening country ownership and aid partnerships. I will conclude my statement with a discussion of the contribution of the African Development Bank in ensuring development effectiveness.

The Emerging Trends in Development Cooperation

Over the last two decades or so, and since the end of the Cold War, the development agenda has gone through fundamental changes. First, for most developing countries, the achievement of the Millennium Development Goals (MDGs) has become an important objective and more and more, the international community is linking assistance to the achievement of these goals.

Second, since the late 1990s, country-based Poverty Reduction Strategy Papers (PRSPs) provide the main framework for bilateral and multilateral development assistance to low-income countries, most of them in Africa. I believe that the adoption of poverty reduction strategies presents an important opportunity to reform the relationship between donors and low-income countries.

Third, budget support and sector wide programmes (SWAPs) have emerged as new aid modalities for supporting the implementation of country strategies. This reflects a growing consensus that providing development assistance through the budget ensures greater ownership and promotes donor coordination and harmonisation of aid policies and conditionality. It allows the recipient countries to determine their own development agenda, rather than accommodate projects as prioritised by donors.

Fourth, there is mutual agreement on the harmonisation agenda and simplification of aid frameworks with a view to reducing transaction costs associated with aid delivery. There is also growing emphasis on mutual accountability, in recognition of the fact that donors have not entirely honoured their commitments, often resulting in poor outcomes at country level. In emphasising outcomes, focus for performance measurement has shifted from inputs to results.

Aid Effectiveness within a Changing Global Environment:

Let me now turn to the issue of aid effectiveness, which has increasingly come into the public debate arena in light of the recent decision to scale up aid. In recent years, we have begun to see a recovery of the ODA flows to developing countries, especially Africa, which in the last few years received unprecedented global focus. Data from OECD shows that total net ODA flows to developing countries recovered from a low of \$48.6 billion in 1997 to reach \$78.3 billion in 2004. Total ODA to Africa increased from \$17.1 billion to \$27.3 billion over the same period, with aid to Sub-Saharan Africa nearly doubling from \$13 billion to \$24 billion in 2004. Over the next few years, ODA flows to Africa are expected to increase significantly. The G8 leaders, meeting in Gleneagles in 2005 agreed to increase aid by an additional \$50bn by 2010 – with half of the amount to benefit Africa, and to provide 100% debt cancellation for up to 38 Heavily Indebted Poor Countries (HIPC) worth US \$50 billion.

The expected scaling up of aid over the next few years has, however, raised the age-old question about the effectiveness of aid and the capacity of African countries to efficiently utilise the extra aid. The limited development effectiveness of programmes has been partly blamed on the failure to provide sufficient policy flexibility to countries and the multitude of conditionalities which at times were too intrusive or lacked consistency. In addition, little emphasis was placed on developing recipient

country procurement and accounting systems. As put by Joseph Stiglitz: “good policies can not be bought.” The process of negotiating the programmes left the recipient countries with a feeling that they were being forced to implement programmes for which they had little ownership because of the subservient role they play at the formulation stage. As a result, countries did not often stick to the agreed conditions or chose to implement those where the “political cost” was low and therefore avoided those that would have otherwise yielded better outcomes in the long term.

The above analysis suggests that improving the effectiveness of aid would principally require redefining the relationship between donors and aid recipients so as to restore domestic policy ownership and mutual accountability. If developing countries are allowed to voluntarily adopt and implement sound policies with clear outcome based strategies and targets developed through active engagement with key national stakeholders, then policy-based conditionality of the past would not be necessary for compliance. *Instead, country ownership of a reform programme can be used as a form of reverse conditionality to address policy implementation and sustainability.* It is only when a country has stronger ownership of the reform programme that its commitment to implementation will be stronger.

Critical ingredients for Ownership and Partnership

Strengthening ownership is more difficult to achieve than it first appears, basically for two reasons. First, effective ownership requires that donors be willing to relinquish some control, and second, it requires that partner or recipient countries have demonstrable capacity to lead. Indeed, critical requirements for ownership are commitment to good governance and strong state capacity.

While it is the responsibility of developing countries to assume national ownership and to provide leadership, the international community, and in particular donor agencies, will continue to play a crucial and supportive role.

First, the international community can assist in *building and strengthening the institutional capacity of recipient countries*, which persistently constrain state capacity to take a lead role in the aid relationships. The financial resources and time commitment required to build national capacities of developing countries over the long term should be made central to the current harmonisation agenda. In that regard, donors and MDBs should continue to provide technical and financial assistance to strengthen the institutional and human capacity of African countries to occupy the leadership role.

Second, the international community should assist in *strengthening country systems and promoting their wider use*. There is now broad agreement that the use of country systems can enhance country ownership and reduce transactions costs. In spite of the undertaking under the Paris Declaration, progress in the use of country systems remains limited. The reason given is that national systems often fail to meet the performance standards acceptable to MDBs and donors, especially in the areas of fiduciary management and procurement. Thus, the challenge to both donors and recipients is to define measurement standards, quality indicators and a regulatory framework for country systems without lowering performance standards.

Third, *increased use of sector-wide approaches and general budget support* as alternative aid delivery modality can improve alignment with the needs and requirements of developing countries. To be effective, budget support requires a higher standard of government credibility (including high accountability standards) than is the case with tied assistance, and a capacity to link actions to development outcomes. This implicitly introduces the issue of improving economic

governance. Because many low-income countries still need improvement in these areas, development partners should continue to provide assistance.

Fourth, the international community needs to *commit to providing predictable, longer-term resource flows. This would entail greater flexibility on the side of donors including amending budgetary laws, for their governments to allow multi-year assistance, align assistance with budget cycles of recipient countries and support recipient countries develop multi-year frameworks.*

Fifth, *focussing on results* can also contribute to strengthening country ownership and leadership of the development agenda. In the Paris Declaration, both donors and partner countries agreed to manage resources and improve decision-making for results. Donors should fully support the efforts of developing countries in implementing performance assessment frameworks that measure progress against key elements of national development strategies.

Sixth, both the international community and national governments should take steps to *strengthen the voice of other key stakeholders* in the development effectiveness agenda. Experience with the formulation of PRSPs shows that the ownership of the process tends to be limited to a small circle of politicians and technocrats, either in the President's Office, or in the Ministry of Finance. Other key stakeholders, principally parliamentarians and civil society organisations tend to be excluded. At times, their involvement is only limited to consultation rather than participation. There is particular need to strengthen the voice and oversight capacity of Parliament in the formulation of PRSPs and ensure that their engagement is sustained over the long term.

Finally, there is need to *pay special attention to fragile states*. There is a growing concern about development effectiveness in

fragile states. It is estimated that close to a third of low-income countries in Africa fall under the category of fragile states. In countries where state capacity is weak, donor agencies have tended to sideline the state and deal directly with CSOs and NGOs in the execution of national programmes. This in effect undermines national ownership of programs, continuously prevents state capacity development, and in some instances can be a source of conflict. Donors therefore need to work with fragile states in a manner that helps capacity development rather than bypassing them.

The Role of the AfDB in Ensuring Ownership and Development Effectiveness

Allow me to make a few remarks on the role of the African Development Bank in enhancing country ownership and aid effectiveness. Country ownership is a key strategic operating principle of the African Development Bank, which we support through aligning our country strategies to needs of our regional member countries as well as providing institutional and capacity development assistance.

Through changes to its internal processes and external support to its regional member countries (RMCs), the Bank is taking important steps toward implementing the principles of the Monterrey Consensus on Measuring, Monitoring, and Managing for Results. The Bank is making efforts to ensure that the Country Strategy Papers, which are the main vehicle for providing assistance to our client countries, are prepared in close partnership with the potential beneficiaries, are aligned with country owned poverty reduction strategies and development agenda, and are results oriented.

In a growing number of countries, the Bank is collaborating with RMCs and partner institutions in carrying out joint appraisals, feasibility studies, and analytical work, with a view to improving donor coordination, increasing relevance of our

analytical work and to reduce risk of MDB's providing conflicting advice to client countries. Building on this experience, the Bank will promote greater use of common processes, joint diagnostic tools, common data analysis procedures, joint conditionalities, and greater reliance on country systems and local expertise for future undertakings.

Predictability of aid flows must also be closely linked to recipients' performance and meeting mutually agreed terms and conditions. Based on the Country Strategy Papers (CSPs), and consistent with the priorities in the PRSP, timely Bank resources will continue to be made available, over the medium-term. Also, in view of the increasing demand for budget support and SWAPs by RMCs, the Bank is increasingly mindful of the importance of budget support and SWAPs as major instruments for channelling Bank Group assistance.

The Bank recognizes that the ability of RMCs to exercise effective ownership and leadership is conditional on their institutional capacity—which often is lacking. The Bank thus continues to give special attention to the need to step-up capacity building assistance to address the special challenges facing member countries. While in the past, capacity building was generally done within the context of individual projects, the Bank now treats capacity development as a strategic component of country programming. The Bank is thus collaborating with other development partners in providing technical and financial assistance to strengthen the institutional and human capacity of RMCs. In countries such as Ethiopia, Mozambique, Senegal and Uganda the Bank is providing support for the preparation and implementation of PRSPs as well as building the overall aid management capacity.

On monitoring development outcomes, the Bank has, in recent years, embarked on an ambitious statistical capacity building programme aimed at assisting African countries to develop the necessary capacity to provide a reliable statistical base for

national, regional and global policy making and for developing performance indicators. Through such activities, the Bank is reinforcing statistical capacity at the country level, both through International Comparison Programme (ICP), and individual country-level capacity building grants.

Finally, the Bank as well as the wider donor community recognises the challenge of extending assistance to fragile countries. To date, the Bank has been providing support to fragile member countries through assistance under the Post-Conflict Country Facility (PCCF); Emergency Assistance through the Special Relief Fund grants; and participation in donor consultations and post-conflict resource mobilisation. So far, interventions have focused on the provision of humanitarian assistance and the delivery of basic social services and capacity building support. However, the requirements of fragile states go well beyond such intervention and include the provision of basic infrastructure. There is need to strengthen the strategy for fragile states.

IV. Conclusion

Chairperson,
Ladies and Gentlemen,

Let me conclude by stressing that the development partnership and country ownership are critical for scaling up development effectiveness and it is the mutual responsibility of both the donors and recipient countries. There are some critical issues emerging from this presentation. First, scaling up development effectiveness becomes more effective when driven at the country level. Moving the scaling up agenda to the country level within the PRS process, government leadership of the process and the active participation of all segments of society including country level donor groups are critical. Second, revamped aid coordination and country-donor partnership arrangements are critical for implementation of major commitments and

agreements including those made in the recent UN Summit and Paris High-Level Forum on Aid Effectiveness. Third, the scaling up process would require a coordinated country capacity development strategy and programmes. Fourth, we need to strike a balance in the scaling up effort between quantity and quality as well as between productive and non-productive sectors. Finally, for the scaling up effort to be successful, we should stay focused and keep the momentum going with clear timetable to translate the goals into concrete results on the ground. Getting the financing plans right and including the volume and type of external aid are also essential ingredients to ensure aid effectiveness.

I thank you for your attention.