Global Economic Governance Programme

Centre for International Studies | Department for Politics and International Relations

University of Oxford/Cornell University

A Conference on

New Directions in Development Assistance

11-12 June 2007

Rhodes House
South Parks Road, Oxford

Co-Chairs
Ravi Kanbur (Cornell University)
Ngaire Woods (Global Economic Governance Programme, Oxford University)

Conference Coordinator
Sabeel Rahman, Global Economic Governance Programme

Conference Report

Edited by Ngaire Woods

The aid system is at a crossroads. On one hand, rich countries have pledged to drastically increase development assistance to help poor countries reach the MDGs. On the other hand, numerous critics claim that aid often does more harm than good, and that the aid system needs to be drastically reformed. Underlying this discourse is the evolving role of aid in the domestic political economy of aid recipient countries. At the same time, questions have arisen over significant new sources of aid—countries as well as major private donors—and the nature of their integration into the current system. During this two-day conference, co-sponsored by Oxford's Global Economic Governance Programme and Cornell University, these challenges were discussed. This report, compiled by eight GEG Research Associates, captures some of the discussion.

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Conference Programme

Monday 11 June 2007

9:15—11 am **Session I: Why should we "rethink" aid?**

CO-CHAIRS: Ngaire Woods and Ravi Kanbur
President Joaquim Alberto Chissano, Former President, Republic of Mozambique
Nancy Birdsall, President, Centre for Global Development
Simon Maxwell, Director, Overseas Development Institute

11:15 am—1 pm **Session II: Rewarding "Good Performers": The Debate on Performance Based Aid**

CHAIR: Chris Adam, Oxford University
Maureen Harrington, Vice President of Policy and International Relations, Millennium Challenge Corporation
Paul Mosley, Professor of Economics, University of Sheffield
Helen Milner, B.C. Forbes Professor of Politics and International Affairs, Princeton University
Ravi Kanbur, Professor of Economics and T.H. Lee Professor of World Affairs, Cornell University
Discussant: Tony Venables, Chief Economist, DFID; Professor of Economics, Oxford University

2—3:45 pm **Session III: What do we know about how to aid fragile states?**

CHAIR: Ian Goldin, Director, James Martin 21st Century School, Oxford University
Frances Stewart, Director, CRISE, Professor of Economics, Oxford University
Paul Collier, Director, Centre for Study of African Economies, Professor of Economics, Oxford University
James Putzel, LSE
Paul O'Brien, Oxfam America
Discussant: Kevin Morrison, Duke University

4—5:30 pm **Session IV: New Modalities for Aid?**

CHAIR: Adrian Wood, Oxford University
Gustav Ranis, Frank Altschul Professor of International Economics, Yale University
Stijn Claessens, Assistant Director, Research Department, IMF
Sarah Bermeo, Princeton University
Nicolas Van de Sijpe, Oxford University

Evening keynote address:
Edward Scott, Founder, Centre for Global Development and global philanthropist

Tuesday 12 June 2007

9:00—10:45 am **Session V: What are the political impacts of aid relationships?**

CHAIR: Lindsay Whitfield, Lead Researcher, Managing Aid Dependency Project, Global Economic Governance, Oxford University
Gervase Maipose, Professor, University of Botswana
Rachel Hayman, University of Edinburgh
Paolo De Renzio, Oxford University
Discussant: David Craig, University of Auckland

11—12:30 pm **Session VI: What are the perspectives of new donors?**

CHAIR: Ravi Kanbur
Qi Guoqiang, Vice-Chairman, Chinese Association of African Studies, Beijing, Ministry of Commerce, PRC
Marcelo Abreu, Professor, Department of Economics, Catholic University of Rio de Janeiro
Pang Eng Fong, Professor of Management, Singapore Management University
Deborah Brautigam, Associate Professor, American University
Discussant: Helmut Reisen, Counsellor, OECD

1:30—3:30 pm **Session VII: When the market and government policies fail: Who is filling the gaps?**

CHAIRS: Devi Sridhar and Rajaie Batniji, Global Economic Governance, Oxford University
Mark Suzman, Gates Foundation
Dennis Whittle, Chairman, Global Giving
Raman Nanda, Acumen Fund
Jeb Brugmann, The Next Practice
Discussant: Jennifer Tobin, Nuffield College, Oxford University

3:45—5:15 pm **Session VIII: What are the challenges for multilateral organizations and donors?**

CHAIR: Ngaire Woods
Richard Manning, Chair, Development Assistance Committee, OECD
Thomas O’Brien, IEG, World Bank
Thandika Mkandawire, UN Research Institute for Social Development (tbc)
Discussant: Andrew Hurrell, Oxford University

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Session I: Why We Should Rethink Aid

Co-chairs: Ngaire Woods and Ravi Kanbur

Joaquim Alberto Chissano, former President of Mozambique
Simon Maxwell, Director of the Overseas Development Institute
Nancy Birdsall, President of the Center for Global Development

In recent years, the debate on aid effectiveness has become increasingly polarised between the view that aid will never work and we should give more aid (regardless of whether aid works or not). Ngaire Woods said the impetus behind this conference was to explore what we actually know (as reseaerchers) about what kinds of aid work and to discuss how to make aid work better.

Ravi Kanbur added that the conference also aims to provide a platform for bringing together practitioners and researchers of development assistance, to further interaction between research and practice in light of the often heard complaints about the gap between the two.

President Joaquiim Chissano lead the panel with his reflections on why we should rethink aid and what directions it should take. He observed that donors and recipient countries are united in their frustration with the results of aid to Africa, but also highlighted polarised positions in the debate between reducing aid and scaling up aid. Among critics of aid, there are also polarised positions between those who blame governance problems within African countries (which are fuelled by aid) and those who blame the negative impact on economic development caused by aid. Chissano argued that in making aid more effective we must deal with the problems on both the donor and recipient sides.

In most cases foreign aid to Africa did not start in a healthy atmosphere of mutual trust, but rather one plagued by the politics of post-colonial relations. Even today, many Africans see the relationship with donors as still influenced by the colonial past, where donors ‘know’ what, how much and when recipients need assistance. In some cases the priorities of donors and recipients do not match, and donors can dictate the use of aid according to their own interests irrespective of the views of the recipient.

The use of highly paid international consultants undermines the building of local capacity, while sending back aid to donor countries instead of propelling local economies And the important concept of capacity building has been reduced to a ‘never ending litany of seminars and workshops, many of which are of more than doubtful value’. The bureaucracy of development cooperation is more concerned with processes than with policy and results and continues to be a heavy burden on weak public administrations. Ironically, recipient countries are accused of lacking capacity to absorb aid, instead of donors for their heavy bureaucracies.

Chissano also pointed out that recipient countries have their share of problems, including continuing to develop governance institutions that provide services and respect citizens' rights. He stressed that if the issue of national private sector development and its bolder participation in national development is not addressed, this may become a source of conflict in the future. The problem of developing a *national* private sector is compounded by the perception that foreign companies are given special privileges. We should devise innovate ways to leverage aid to attract private sector resources in order to support entrepreneurial classes that have a stake in the national economies.

Aid effectiveness has been improving in Africa where higher quality partnership between donors and African governments is present. The challenge is to improve further this partnership in Africa, where more demanding and vocal communities are on the rise.

The Paris Declaration is supposed to address the evident chaos in development assistance, by committing donors to supporting recipient countries' poverty strategies and development programmes. The Mozambican government welcomed aid channelled through general budget support as a means of achieving ownership, reduce fragmentation and increase the aid flowing through the budget and thus more aligned to the government's programmes. However, it turned out that general budget support created new problems: an increased administrative burden; donors' common voice often becomes a common front in an unbalanced power relationship; introducing donors more deeply into the heart of the government, compromising the latter's ability to formulate and carry out its policies independently, and thus eroding its intended objective.

In the end, Chissano stressed it is not the quantity of aid, but the quality that matters. Aid must be used according to fair and balanced set of rules that bring together providers and recipient, or the impact will be very little or negative. In rethinking aid, we need to come up with a system in which donors and recipient countries have mutual trust, centred in the notion of the acceptance of the recipient government's leadership of the overall development process. In the new global compact on aid, recipient countries should have the chance to formulate and implement their programmes and donors should monitor their aid programmes without grossly interfering in policy formulation. Accountability must be demanded on both parties.

Simon Maxwell spoke next. He underscored what he thinks are three biggest issues facing donors. First, we need to get a grip on proliferation in the aid architecture. There is a passion for earmarking and new initiatives. Every new announcement multiplies aid agencies, targets and initiatives, making aid unmanageable. The costs of the aid industry that donors impose on recipients and themselves are huge. The Paris

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Declaration attempts unsuccessfully to manage this. New donors are entering the scene, and as aid increases, it is becoming less multilateral and more bilateral.

Second, leaders must look behind them at what is happening with international development. The MDGs are not longer an adequate framework for aid interventions. The impact of China on the global economy means that manufacturing is no longer a way to development. Foreign policy and security issues are merging with aid.

Third, there is a shift from the national issues to the global public goods, in the face of climate change and other global risks and challenges.

What do you do about this? On the complexity of aid and global challenges, Maxwell argued that there has to be a multilateral answer. Such an answer could include strengthening the World Bank, implementing reform of the UN, and EU development cooperation becoming a major player. We need to have conversations in a multilateral forum. The OECD DAC started the conversation, but it is not genuine multilateral institution. ECOSOC is the right place for a multilateral conversation on aid.

Nancy Birdsall also gave several reasons the rethink aid. First, the scaling up of aid promised is scary for aid dependent countries already receiving aid that accounts for 50% of their budgets. How to avoid interference when aid is that important to governments and ensure governments are accountable to citizens? Second, donors have proliferated. There are new foundations, vertical, multilateral aid is going down. She is cynical about the prospects of getting a grip on the aid architecture through multilateralism as Simon Maxwell proposed, due to the complexity of the problem. She argues that we have to do other things. Third, there is an aid-institutions paradox for aid dependent countries: it is very difficult to develop the local institutions of the state, political development that makes politicians accountable to citizens, when most of the resources come from elsewhere. More aid, even through general budget support, may not deal with that paradox.

How to deal with that institutional trap? Birdsall propsed three solutions: Recognise aid dependence and provide aid for 20-30 years; Create space for local institutional development—exploration and process that outsiders cannot do; Give progress-based aid, where donors enter a contract with the recipient government o pay a specific amount for a specific bit of progress achieved above a baseline. The only condition attached is that there are safeguards on the quality dimension. The money given does not have to be used for the issue on which the money is conditioned. For example, money is given based on progress in education which will be quality controlled through a test for students, but the money may be used on infrastructure. Lastly, Nancy emphasised the need to pay public servants enough. Paying public servants is a taboo among donors, but no donor has an actual policy against it. There has not been the creative exploration of the mechanisms by which to do it. Donors are creating a lot of work, poaching from government to run projects, and donor-funded NGOs are poaching from government. We need to transform the idea of capacity building into institution building. The capacity is there. We need to find ways to contribute, rather than undermine local institutions.

Discussion

In the discussion period, participants raised several issues and commented on the presentations. These interventions are summarised and grouped thematically.

There was a large amount of doubt over whether we can ‘get a grip’ on the sprawling aid architecture as Simon Maxwell suggested. One participant supported trying again with multilateralism, coupled with mobilising donor societies around problem solving. Others, however, doubted the ability and desire to multilateralise it, an issue raised again later in the conference. The point was made that the North-South divide is still strong. The so-called ‘South’ is still critical of the existing aid architecture, especially the World Bank. The G77 does not want to see the UN turned into a development agency. The South does not want to see ‘new’ aid architecture repeating a Northern-driven development agenda. Perhaps the focus should shift to Southern regionalism and regional actors. Another participant suggested putting in place a forward-looking information program which indicated donor financing envelopes for the next 3-5 years, in order to make aid more predictable.

Another theme was rethinking aid in terms of linking it to the productive sector. Most Chinese aid is investment. Whereas much Western or ‘traditional’ donor aid centres on welfare and service delivery. But the core of the problem of under-development is production, producing goods which in turn increase people’s incomes and state revenue so that the former can pay for services and the later can provide them. One participant complained that development as service delivery funded by aid is not development, nor is it sustainable. African countries in particular are plagued by dependency on primary commodities which make them vulnerable to the ups and downs of international commodity prices. The point was also raised that the aid debate has a very narrow focus and has become removed from the larger issues of the international political economy. For example, the Economic Partnership Agreements between EU and African and Caribbean countries that could be signed very soon will affect the development strategies open to these countries, and thus the purpose for which they can use aid.

The aid business has been hiring the best people in recipient countries, creating huge distortions in labour markets. There is now an attempt to reverse that with the Paris Declaration. Salary supplements do have a role. The OECD Development Assistance Committee wrote a policy about it back in the 1990s. But attention should not just be paid to senior level civil servants; the middle level is very important. One participant noted that aid had made some achievements, particularly in the area of strengthening budget systems.

Former President Chissano made a final intervention to stress that aid should be managed by those who receive it. Donors should get a report on its use. However, the

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report will not always show good results, but recipient governments must explain why it did not get good results. He said individual countries align with certain donors and this is problematic for creating Southern regionalism. Additionally, existing regional structures are not always useful for cooperation. Regional actors need to reach an understanding with each other on principles of South-South cooperation. He also spoke of the need to improve production, to raise revenues with the country, and to improve institutions for tax collection, so that budgets may be financed from within the country.

Remaining questions

What is the point of aid? Is aid intended to assist recipient countries in pursuing development strategies? Is it to provide only temporary welfare relief while countries figure out how to grow their economies, create jobs and thus increase welfare through their own resources? Or is it a side-payment to recipient countries for not rejecting more radical change in the global economy that could alter the resources at their disposal to pursue development?

There is much agreement that donors have constrained recipient governments both in terms of policy space and institutional development (the aid-institutions paradox), and there is agreement that both of these are important for development. But what can be done about the problem? We have a maximum number of procedures for aid clustered around the same policy prescriptions. What we need is a coordinated procedure for aid and variation in policy choice. It is too difficult for donors to coordinate themselves (too many perverse incentives). What is needed is for recipient governments to lead coordination and to provide the single process. Then donor proliferation might be less harmful.

Rapporteur: Lindsay Whitfield, GEG

Session II: Performance Based Aid

CHAIR: Chris Adam, Oxford University

Maureen Harrington, Vice President of Policy and International Relations, Millennium Challenge Corporation
Paul Mosley, Professor of Economics, University of Sheffield
Helen Milner, B.C. Forbes Professor of Politics and International Affairs, Princeton University
Ravi Kanbur, Professor of Economics and T.H. Lee Professor of World Affairs, Cornell University

Discussant: Tony Venables, Chief Economist, DFID; Professor of Economics, Oxford University

The past few years have seen a clear trend, at least in the aid discourse, away from old-style *ex-ante* conditionality aimed at ‘buying reforms’ to a new focus on *ex-post* verification and ‘rewarding reforms’. The clearest example of this trend is the Millennium Challenge Account, but also the introduction of performance tranches in budget support programmes, and the move towards selectivity through the design of aid allocation criteria which evaluate countries’ past policy reforms. The session on performance-based aid was aimed at assessing the claim that aid, if effectively designed and deployed, can be a powerful *incentive* for reform in recipient countries, and that donors can indeed influence the policy agenda and the development policies adopted by recipient governments by linking their support to specific outcomes.

First of all, Maureen Harrington outlined the approach adopted by the Millennium Challenge Corporation (MCC) in selecting the countries it supports and in defining the areas of intervention. The MCC represents an innovative approach as it only works with ‘well performing’ countries that satisfy a series of minimum standards in three areas: ruling justly, investing in people and economic freedom. These are measured using publicly available and widely accepted indicators. Once countries pass the test, they negotiate a compact with the MCC where resources are made available for areas where government has a clear interest, therefore promoting country ownership. Separately, the MCC funds a ‘threshold programme’ for countries that are close to reaching the minimum standards, to help them qualify.

Although it is still too early to judge the MCC’s impact on poverty reduction, Maureen Harrington claimed that there was evidence of the ‘MCC incentive effect’ at work, for example in countries who made clear efforts to improve their systems in order to ‘graduate’ into the pool of eligible countries. She cited examples from the Dominican Republic, El Salvador and Yemen. At the same time, however, the MCC faces clear challenges. The first one relates to what happens when MCC partner countries see a deterioration in their performance on the eligibility indicators. So far the MCC has decided to continue supporting them. A second challenge is linked to capacity constraints in MCC partner countries, where systems and mentalities are not always supportive of results-orientation. Finally, the litmus test for MCC success will be whether partner countries are able to attract further investment as a result of the MCC ‘seal of approval’.

Paul Mosley began questioning the common condemnation of the *ex-ante* conditionality linked to policy-based lending. Recent growth performance in a number of low income countries, he argued, might have been possible exactly because of the reforms linked to conditioned aid. The ‘new conditionality’ linked to pro-poor expenditure was also effective in shifting the pattern of public expenditure towards sectors that contribute to the reduction of poverty. In this sense, existing approaches based on policy performance seem to have been effective in promoting better outcomes in a number of poor countries. Nevertheless, Mosley warned that the recent focus on scaling up aid flows may bring about unexpected negative consequences, by leading to an increase in corruption and a lowering of tax effort, and by undermining the focus on performance given the pressure to spend that donors would face.

Helen Milner commented on the definition of 'performance' which is utilised in discussions on performance-based aid. For example, the MCC criteria include a number of different dimensions, ranging from economic to political performance. This can create confusion, and is reflected in some of the contradictions arising from the economic literature on the linkages between aid and economic growth. She also highlighted a number of contradictions which come from the reality of foreign aid, which often is utilised for foreign policy rather than developmental purposes, and is constrained by domestic politics in donor countries. Finally, she raised a number of potential issues regarding the MCC. She warned of the danger of foreign policy objectives 'encroaching' on the MCC's core mission, especially as a consequence of the 'war on terror'. She questioned the clause about discretionary decisions that the MCC Board can use in taking decisions on eligible countries, and highlighted the need to develop exit strategies for countries thae backslide on performance criteria.

Finally, Ravi Kanbur put forward a simple proposal for introducing an outcome focus in the aid allocation formula utilised by the World Bank in low income countries. The allocation rule used by the International Development Association (the Bank's concessional lending arm) includes income levels and performance on the CPIA (Country Policy and Institutional Assessment) rating, which is based on 16 scores mostly related to intermediate rather than outcome variables, linked to governance and policy matters. In his critique of this approach, he claims that such focus implies an underlying theory of the development process whereby any poor country, by pushing certain policy buttons, can achieve growth and poverty reduction. However, the underlying theory promoted by the IDA rule is not a very well substantiated one, and imposes uni-directional policy choices on recipient governments, preventing policy space and experimentation. His proposal focuses on adding a specific 17th dimension to the CPIA, linked to an outcome indicator, for example on health or education results. Performance would be assessed on the basis of changes, and not levels (to take account of different starting positions), and could be linked to moving averages rather than yearly values (to take account of possible shocks, etc.). This would allow governments to adopt any policy that best allows them to reach maximise performance, and therefore increase policy space and results-orientation.

Discussion

The discussant for the panel, Tony Venables focused his comments on the issue of performance related to improving the cross-country allocation of aid. He noted that many of the regressions models currently used to assess aid effectiveness need to be disaggregated much more in order to come to more useful policy prescriptions. The link between aid and development outcomes, he noted, is not a straightforward one, where correlation cannot imply causality, and where attribution is highly problematic. The choice of outcome indicator also runs the risk of causing distortions.

The discussion that followed touched on a number of areas, each of which could be the focus of further research in order to better inform aid policies and instruments.

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Measurement of performance and choice of indicators. A number of participants noted that the choice of performance indicators can lead to a number of problems. Focusing on corruption, for example, may fail to recognise that in certain cases corruption is not necessarily negative. In the case of Bangladesh high levels of corruption were associated with great improvements in development outcomes. Choosing certain indicators also means focusing attention on certain issues, which may lead to distortions. It could be argued, for example, that the existence of the MDGs has skewed resource distribution in favour of basic social services, and away from productive sectors. Also, rewarding 'good performers' still leaves open the issue of what to do with non-performing countries where lots of poor people live. Finally, it was noted that if one considers countries that were successful in the past few decades, few would pass the test of current performance criteria, which calls into question the current 'underlying theory of the development process' which Kanbur talked about.

Attribution. Focusing aid on performance is based on the assumption that aid can directly contribute to development outcomes. Attribution, however, is a problematic issue, as many noted. At the macro level, which has been the main focus of research, the debate has gone back and forth, and it might be difficult to reach a clear consensus, or to come to a definitive proof of attribution. The micro level is where not enough research has been done, and where a lot more work is needed.

Donor incentives. Some participants noted how, regardless of donors' promises to focus aid on performance, the current political climate in donor countries, and the influence of domestic politics and other foreign policy objectives, might limit donors' capacity to provide clear incentives for recipient countries to focus on performance.

Recipient politics and the 'incentive effect'. Similarly, little research exists on the impact of aid on politics in recipient countries. The 'incentive effect' of aid is based on the assumption that recipient governments would react positively to a shift in aid focus towards performance. But this assumption is not very well substantiated at the moment.

Rapporteur: Paolo DeRenzio, GEG

Session III: Aid to Fragile States

CHAIR: Ian Goldin, Director, James Martin 21st Century School, Oxford University

Frances Stewart, Director, CRISE, Professor of Economics, Oxford University
Paul Collier, Director, Centre for Study of African Economies, Professor of Economics, Oxford University
James Putzel, Crisis States Centre, LSE
Paul O'Brien, Oxfam America

Discussant: Kevin Morrison, Duke University

The objective of this panel was to probe what we know about what kinds of aid are effective in fragile states. Ian Goldin opened the panel observing that the persistence of fragile states' status indicates the international community's inability to respond to the unique challenges posed by these states.

Frances Stewart began her presentation defining a fragile state as a state which is unable to meet one of the three core criteria of a stable polity: authority, citizens' access to services provided by the state, and legitimacy. These three criteria are not highly correlated with each other, and represent distinct forms of state weakness. A weakness in state authority is the worst form of state weakness, for it can lead to weaknesses in the other two categories of social services and state legitimacy. According to Stewart, one of the primary sources of weak authority is the presence of "horizontal inequalities"—inequalities between groups in their access to goods, services, and political power. Such horizontal inequalities increase the propensity to conflict, particularly when they take the form of inequalities in political power. The challenge, then, for development is that while domestic governments have proven somewhat aware of horizontal inequalities, much foreign aid has ignored inequality in general, and horizontal inequality in particular, focusing instead on efficiency. As a result, aid can often worsen horizontal inequalities, thereby exacerbating the condition of fragile states. The way forward, Stewart suggested, lies in better monitoring of the effects of aid policies on horizontal inequalities, and an integration of horizontal inequality concerns into standard aid dialogues such as the PRSP process. In this way, the aid system can be reformed to better prevent countries from becoming fragile.

Paul Collier categorized fragile states in a different way to Stewart. He disaggregated the category into two groups: countries in post-conflict scenarios, and countries that are at peace but are saddled with "massively dysfunctional governments". Aid is very different in each of these two settings. In the post-conflict setting, Collier argued, aid is highly productive because the politics surrounding development policy have become more favorable to reform: the experience of bad policies during conflict, the disruption of vested interests as a result of conflict, and the rising expectations of citizens for a 'peace dividend' creates a window for major political change. At the same time, the post-conflict setting is the most needy with respect to aid; aid can have a major impact in terms of reconstruction of infrastructure, restoring fiscal balance to rebuild monetary behavior and control inflation (particularly in light of the frequent resort of countries in conflict to printing excess money), and thereby prevent the risk of massive capital flight in the aftermath of conflict.

In peaceful but dysfunctional states, Collier suggested that aid is much more problematic, having a reform-chilling effect. By providing money to corrupt states, donors can reduce the sense of desperation driving reluctant elites to engage in reform, thereby weakening the long-term prospects for development and political

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reform in the country. Instead, Collier argued that aid in this setting should focus on technical assistance, to help reform-minded elites push policies through the corrupt and ineffective bureaucracy. Collier ended by suggesting that in both types of fragile states, the key variable is the weakness of the civil service, which is unable to enact necessary policies and reforms for promoting stability and development. Fragile states therefore need to create new institutional systems with heavy involvement on the part of donor states to replace the ineffective and / or corrupt bureaucracy.

James Putzel focused his remarks on the importance of building the power of the central state, a task which requires the rethinking of traditional modes of deploying aid. Deploying aid to promote security and a stronger central state requires a move away from some traditional aid policies such as decentralization, and a greater willingness to employ more unorthodox aid policies, such as focusing aid on areas where military bases exist, and can maintain security and stability. As examples, Putzel cited the failure of decentralization efforts in Afghanistan, where the lack of capacity in the central state thwarted decentralized development efforts. Putzel also suggested that in cases like the Democratic Republic of Congo, in order to be more effective, aid should be deployed in close alignment with existing military bases where different factions have integrated to better promote security.

Paul O'Brien then offered a practitioner's perspective from his experience in Afghanistan. O'Brien argued that in Afghanistan, there was a strong local consensus that development efforts should be geared towards strengthening the "social compact" between the state and its citizens. Further, the Afghan National Development Strategy was a coherent, locally-owned framework that the Afghan government used successfully to demand donor support for the state's own vision of development. O'Brien then offered two examples of how this social compact was undermined, and promoted in Afghanistan.

First, O'Brien described that as development became part of the national security architecture, there was a move to use the national security apparatus to deliver on development goals. As a result, the military were asked to assist in the pursuit of infrastructure and development projects, yet the military was not attuned to issues of local capacity and politics at the provincial level, while lacking local legitimacy in their dual roles as security forces and development providers. The result was an undermining of the social compact. Second, the National Solidarity Program sought to promote the social compact by setting up community-based development committees which were given money directly to spend on local needs. According to O'Brien, anecdotal evidence suggests that the results are cheaper, more effective, and locally owned and legitimate in contrast to the military-driven development projects. However, this program ultimately became undermined by its own success, as rival groups challenged the program as a Pashtu-dominated scheme.

Discussion

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Kevin Morrison as discussant raised one primary challenge to the speakers on the panel, asking whether fragile states represented a set of states that were part of the "universe of all states," in that they shared common dynamics as other states, but simply faced different circumstances, or whether the dynamics of fragile states were qualitatively different from non-fragile states. This question, Morrison suggested, is important for considering whether the study of fragile states has implications for non-fragile states, or whether the issues facing fragile states are truly unique.

The discussion raised four further questions for the panellists. First, who is being targeted by aid interventions in fragile states: governments, group leaders, communities or individuals? Second, what kinds of non-state social and economic institutions have proven to be resilient in fragile state settings, and how can they be harnessed to meet the challenges faced by fragile states? Third, in contrast to Collier's arguments, to what extent are post-conflict situations actually more politically dangerous (rather than less) as a result of the tensions created by conflict? Fourth, when should post conflict states engage in taxation policies, particularly when such policies have historically formed the bedrock of the evolving state-society compact?

Stewart responded that fragile states are a unique group of states that face a shared problem, even though the actual solutions may be different in each case. Putzel responded that aid in fragile states should focus on "state-making," paying attention to the fostering of elite coalitions and long-term wealth creation, and avoiding aid interventions which may weaken the central state. Collier responded that while donors shouldn't get too deeply involved in domestic politics, the weakness of post-conflict states suggests that donors do need to assist in creating an institutional architecture that can overcome the challenges faced by fragile states. Collier also noted that the question of tax revenue further underlines this need to devise new institutional arrangements, since often tax revenues are lost to corruption and graft.

O'Brien responded that improvements in education and health are important to legitimating a fragile state, but donors should not turn a blind eye to the need to maintain political stability. On the question of taxation, O'Brien warned that donors' rush to promote tax revenues in Afghanistan as a hedge against the eventual end of donor funds undermined early efforts to promote the formal economy.

The panel ended with a closing statement offered by President Joaquim Chissano. Chissano spoke from his experience in Mozambique, describing how the Constitutional reform in 1990 enabled market-oriented economic reform and the institutionalization of civil liberties and political competition. In this process of post-conflict reconstruction, Chissano noted that long-term cooperation, constant dialogue, and detailed planning with international bodies like the UNHCR was crucial to success, but that the Mozambique government retained authorship of the reconstruction agenda. Similarly, NGOs proved helpful in executing plans devised by the government, for example facilitating the rapid construction of new universities. This process of reconstruction was also made possible by the effort to create a reliable judiciary and police force to ensure stability and security, and to combat corruption.

Remaining questions

The panel raised a number of key questions for future policy discussions and academic research. First, how should we define "fragile states"? Which aid modalities work best in these settings? To what extent does engaging with fragile states imply a redefinition of the idea of development itself—moving away from a focus on growth, and more towards a focus on political institution-building? While the panellists seemed to agree that ownership of reconstruction and development agendas is important, it is still unclear who the owners of these plans should be—states, social groups, citizens, or donors? Indeed, while much of the panel focused on state institutions, it is unclear what role citizens and civil society play in this process of development in fragile states. In the same way, it is unclear exactly how far donors can and should go in their direct involvement in policy formation in these states.

Rapporteur: Sabeel Rahman, GEG

Session IV: New Modalities for Aid?

CHAIR: Adrian Wood, Oxford University

Gustav Ranis, Frank Altschul Professor of International Economics, Yale University
Stijn Claessens, Assistant Director, Research Department, IMF
Sarah Bermeo, Princeton University
Nicolas Van de Sijpe, Oxford University

This panel focused on the current state of research into the ways of delivering aid, or aid modalities. First, the panelists took up the issue of whether the development community should focus on finding new modalities for aid delivery or if continuing on the current trajectory was preferred. Second, if the development community does need new aid modalities, what might these be? What does the existing research tell us?

Gustav Ranis outlined many of the sources of skepticism and reasons for fatigue with current aid modalities, pointing first and foremost to the failure of structural adjustment lending. Yet for all the skepticism, starting from scratch is not a realistic option. There are too many vested interests in the current system. Instead, Ranis proposed business as usual, transformed to include a new ODA window could be the best way to continue with business as usual. This new window would be operated under the auspices of the IFIs/Consultative Group. It would recognize the importance of policy-based lending; it would act passively—with potential recipients proposing politically and economically viable projects with self-imposed conditionality commitments.

Sarah Bermeo presented a research paper which analyzes the sectoral allocation of bilateral aid flows. In particular, Bermeo posed the question: why does aid to different sectors vary so markedly in its impact, if aid is fungible? Intriguingly, in her dissection of data, Bermeo highlights that aid to countries with poor institutions is not directed by donors to growth sectors. This puts into question broader findings that aid to countries with poor institutions does not lead to growth. This points to the need for moer careful analysis of aid *to which sector* has what impact in weak policy environments.

Nicolas Van de Sijpe examined the fungibility of aid. Van de Sijpe shows that past studies may have underestimated the fungibility of aid by studying the data in an aggregate manner. By disaggregating the data by sector, Van de Sijpe shows that in fact, the fungibility of aid appears to be very limited. This implies that there remains a role for tested aid modalities, as aid is not equivalent to general budget support. As he noted, 'There is a lot we know that we don't apply.'

Finally, Stijn Claessens argued that disappointing results from the current aid modalities are not a result of a lack of knowledge. The challenge is to get the main actors to better utilize existing knowledge. Weak implementation on the part of donors is a result of poor decision-making in donor countries. The answer then is to improve the current aid architecture through greater transparency, better governance of donor agencies, more harmonization and learning among donors, and financial policy and institutional reforms. We could start by improving IDA. The EU could take a lead.

Discussion

In the ensuing discussion, the audience underscored the continuing disagreement over the workings of current aid modalities. Some argued for better coordination around modalities seen to be working well. Others urged ongoing experimentation so as continually to test current and new modalities to understand how and why they might be working. Further discussion focused on the need to think about the unintended consequences and political impact of the way aid is delivered as well as the need for recipient governments to participate—indeed to be in the driver's seat—in shaping the process. Several participants the need for longer time frames to allow aid modalities to work—something bilateral agencies seem to find difficult to deliver.

More research, better data, and much more careful use of data are vital to forming conclusions about the modalities of aid. Yet this session highlighted enormous gaps not just in the data but in the ways economists and political scientists and others have used existing data.

The failure of the widely heralded Washington Consensus brought changes to the aid architecture in the form of general budget support, sector budget support, Poverty Reduction Strategy Papers, and the focus on generating stronger governance and institutions. Each of these aid modalities was born out of disagreement on the current state of the aid architecture. Current disagreements are similarly shaping change.

Remaining questions

Questions and comments from the panellists and the audience lead us to a number of avenues for future research, including some of the following questions. How do we understand what is working and what is not? Closer attention is needed to when and why aid is fungible. Researchers must move beyond the broad questions of under what conditions of governance is aid effective, to ask: which kind of aid, to what sectors? Do we continue to allow thousands of modalities to move forward or do we focus in on a select few? How do we enable donors to get the most out of current modalities when they must be responsive to voters? How can recipient country governments be brought into a lead position in coordinating new modalities?

Rapporteur: Jennifer Tobin, GEG

Session V: Political Impacts of Aid Relationships

CHAIR: Lindsay Whitfield, Lead Researcher, Managing Aid Dependency Project, Global Economic Governance, Oxford University

Gervase Maipose, Professor, University of Botswana
Rachel Hayman, University of Edinburgh
Paolo De Renzio, Oxford University
Discussant: David Craig, University of Auckland

This panel was a discussion of the current GEG project ‘Negotiating Aid: How Recipient Governments Can Expand Their Policy Space’ coordinated by Lindsay Whitfield. The project examines the interaction of the aid system and recipient country politics. It dissects the contradictions between new aid modalities and donors’ commitment to country-led strategies. It conceptualises aid as a negotiation and a bargaining process, rather than as a partnership between donor and recipient governments.

The research is centred on seven studies of aid dependent African countries, in which authors explore the extent to which recipient governments are taking the lead in coordinating aid around their development vision and strategies, what factors explain this, and how successful they have been. The case countries include: Ethiopia, Ghana, Mali, Mozambique, Rwanda, Tanzania and Zambia. Comparing across countries, the project seeks to define the conditions under which countries have been able to be more assertive in trying to lead the aid relationship and why some are more successful.

In her presentation of the project, Lindsay Whitfield highlighted two general findings of the research so far. First, negotiations over aid are deeply shaped by how earlier battles around structural adjustment were fought and how the aid system has interacted, affected and evolved in tangent with domestic political and administrative systems, including its relationship with political elites. Second, the institutional structure of the aid system and how it has developed over time constrains both donors and recipient governments. Not only has the bureaucratic burden expanded, but changes over the last decade have resulted in expanded donor participation and an increasing institutional entanglement between donor institutions and recipient administrative systems. The cases show that current efforts to improve aid effectiveness have increased donor involvement in policy processes and made it more difficult for governments to manage aid to meet their priorities.

The new aid paradigm is plagued by systemic contradictions. First, it assumes that recipient governments are willing and able to lead, when the aid system partly undermines their ability to do so. In some cases, the history of how a country's aid relationship has created incentives for the recipient government simply to capture as much aid as possible, and to negotiate on the margins. Second, it assumes that when recipient governments take the lead, donors will be willing to trust them and follow, but donors lack this trust.

The case in the project show that on several occasions where recipient governments are asserting particular policies and trying to coordinate donors around them, donor responses have not been helpful or respectful of the ownership discourse. Donor staff in recipient countries doubt the competence, policies and probity of recipient government bureaucracies and politicians, and the incentive structure within donor agencies compelling them to 'deliver' on targets only serves to intensify these doubts.

The panel proceeded by examining three case studies of how countries have negotiated aid: Mozambique, Rwanda and Botswana. Paolo de Renzio presented the case study of Mozambique through a historical look at the relationship between the government and the international community. He argued that although Mozambique is considered both a success story and a 'donor darling', there has been a lack of a clear development vision on the side of the government. Since independence in 1975, he identified three major historical phases. The first was from 1975 to 1985 which was the socialist experiment and when the civil war started. The second was from 1985 to 1995 which was the transition to a market economy heavily influenced by the Washington consensus of the IFIs. Third is the period from 1995 to today which can be viewed as accommodation, during which a situation of what he termed 'pathological equilibrium' arose; this refers to the contradictions in the relationship between the international community and national politics.

History shows that first, Mozambique has developed good skills to work with donors, and second, that the liberalisation process has led to increasing tensions within the governing party. De Renzio presented three different cases which denote different government positions vis-à-vis the donor community. The first situation is where the

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government caved in to World Bank pressure in trade liberalisation for the cashew sector. The second is when the government stood up to the international pressure for privatisation of land reform and did not concede. The third concerns the issue of governance where the government has dragged its feet despite donor pressure. Justice sector reform proceeds very slowly, and although certain key investigations on corruption cases have been started, few have been carried through.

De Renzio concluded by outlining certain political contradictions evident in the aid system in Mozambique, which constitute the core of the ‘pathological equilibrium’. While donors need the Mozambique success story, the government itself needs to keep political stability and ensure re-election. While aid fragmentation leads to policy incoherence, general budgetary support lets donors deeper into the heart of the policy process squeezing out ownership. The aid relationship focuses more on the management of the aid process rather than on the content of the policies that aid supports. Overall donors may be undermining government ownership, due to an underlying lack of trust in the government – indeed even preventing constructive policy debates in the country.

Rachel Hayman presented the second case study of the aid process in Rwanda. In the late 1980s and early 1990s, Rwanda was in an economic and political crisis. There were significant increases in aid and structural adjustment aimed at trying to bring the civil war to an end. The crisis deepened and the‘old donors’ withdrew during the 1994 genocide. Post-1994, the genocide has become the focal point of donor-recipient relations and how individual donor agencies interact with the new government. There have been three phenomena. The first is soul-searching among the ‘old donors’ (e.g. Belgium, U.S., Japan) who have guilt about not acting during the genocide or about the pre-1994 period. Second, there has been tension between the ‘old donors’ and the new government (RPF). Third, there have been good relations between the new government and new donors (e.g. UK, Norway) who have clean hands. From 1994 to 1999, most aid to Rwanda was uncoordinated emergency assistance to refugees at the border rather than to the actual government. Since 1999 and the poverty reduction strategies, there has been increased budgetary support to Rwanda.

An important feature of Rwanda’s experience is that the government has been able to use the genocide legacy to create new space for policy. The RPF which transformed from a guerrilla army to legitimate government is viewed as the army that stopped the genocide while the international community failed. This gives the government a certain moral standing and the international community feels it cannot criticize it. Hayman referred to this as the ‘instrumentalization of the genocide.’

Rwanda has used its policy space to develop a clear development vision – its government is able to speak the international language of development. Although individual donors demand that the government address issues, until now they have pulled back if the government does not listen. That said, the space for Rwandan government ownership and leadership may well be reduced by a new mechanism - the cluster working group – around which more donors are coming in and engaging in the policy-process.

Gervase Maipose presented Botswana - the third case study. Botswana has had a remarkable transition from a highly-aid dependent country to a country where aid has almost disappeared. While Botswana can be viewed as a success, Maipose warned that it still faces challenges relating to a high unemployment rate as well as HIV/AIDS. He argued that Botswana has exercised a high degree of leadership and ownership in the aid process. This is due first to trust - the belief that aid is effectively used - which is crucial to aid management. Second, Botswana has enjoyed a high quality of leadership. Third, he noted that the aid is highly centralized in the government; only the Ministry of Finance negotiates aid. Fourth, Botswana has a clear five to six year plan. Finally, Finance and Planning are integrated into one ministry. Thus if donors want to engage with the government, they must choose which projects to fund from the government plan. Botswana has also encouraged aid coordination among donors. It does not complete hundreds of reports like other countries. Botswana is a good example of a country that has managed to take a lead.

Discussion

David Craig served as discussant for this panel and started by painting a broad characterization of the debate in aid. The first perspective is the managerialist one where donors focus on broad goals such as harmonization and on developing new modalities to be applied universally. This was criticized on the grounds that more modalities do not amount to more accountability - the focus should be modalities that work rather than on creating new ones. The second perspective is institutional political-economic. It is grounded in a deeper analysis of politics on both sides of the aid equation – and highlights the possibility of a ‘pathological equilibrium.’ Craig illustrated this using his own research on Cambodia - a strong aid-dependent state. He concluded by underscoring (1) the inadequacy of public space within countries to discuss their strategies vis à vis donors - how can we create this policy space? (2) the degree to which all aid modalities are political and are embedded in cultural forms, no matter how technically or apolitically they are packaged. The example he used was the Millennium Challenge Corporation (MCC).

There were a number of question and comments from the audience. The first question concerned the title of the project and whether the focus should be on ownership, rather than negotiation. Whitfield responded that donors are political actors and in many ways undermine domestic politics within recipient countries. Thus the aid process should be seen as one in which there are conflicting interests, rather than one of partnership. A participant stressed the historical aspect of aid relationships, particularly the post-colonial ties between donors and recipients. Another stressed that the panel was wise to emphasize donor coordination over technical aspects, but pushed the panel to consider whether there is an ideal model of ownership to learn from. It was also asked whether ownership is improving. De Renzio responded that the situation is getting better but that the underlying contradictions of aid dependency

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are not being discussed. A participant commented that the donor community has much less power than is usually attributed to them - donors need the success of recipient countries and to spend money.

Another participant conjectured that if a government buys into the overall development paradigm (e.g. Washington Consensus), perhaps it has more room to manoeuvre and to avoid issues such as good governance? De Renzio responded that “solid economic performance” can give a government legitimacy in the eyes of donors. In addition, there is the strategy of agreeing with donors in discourse, and doing differently in practice (see Robert Wade’s research on Taiwan in his book Governing the Market was cited as an example of this).

There was a good discussion about what the nature of the case study research. One participant asked to what extent the findings of the study could be said to be supported empirically rather than representing anecdotes freely interpreted. Whitfield and De Renzio responded that the project was systematic and rigorous, using as evidence rich and detailed case studies which had been carefully structured. “Was the project too state-centric?” asked another participant. “What about the role of NGOs and specifically faith-based NGOs?”. Whitfield responded that the state is the key actor in development. Maipose noted that NGOs have played a key role in accountability in Botswana and also helped the government coordinate programmes on HIV/AIDS.

Several questions were raised over specific strategies to improve ownership. It was stressed by Maipose, Hayman, and De Renzio that clear development plans by recipient governments, such as in Rwanda and Botswana, can serve as a valid instrument for a recipient government to improve ownership. In addition, it was stressed that transparent and available donor data and information within recipient governments, such as in Mozambique, can improve ownership. Hayman also mentioned that the engagement of China in Rwanda is creating more space for the government to choose who they want to work with and on what terms.

Remaining questions

Underlying the discussion were fundamental questions to which the project offers a range of answers, but on which further research is necessary. These include:

1. Since the Paris Declaration offers no solution to the contradiction between its rhetoric about ownership and the simultaneous intrusion by donors into the policy process, how does an extremely aid-dependent state create space to establish its own position? How can the underlying contradiction of aid dependency be overcome?
2. Is the state the key actor in development? Is there an overly state-centric bias in the aid debate? What are the roles of NGOs and civil society in furthering ownership?

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3. Should we have further innovation and new aid modalities, or should we focus on improving the instruments that we already have?

Rapporteur: Devi Sridhar, GEG

Session VI: Perspectives of New Donors

CHAIR: Ravi Kanbur

Qi Guoqiang, Vice-Chairman, Chinese Association of African Studies, Beijing, Ministry of Commerce, PRC
Deborah Brautigam, Associate Professor, American University
Marcelo Abreu, Professor, Department of Economics, Catholic University of Rio de Janeiro
Pang Eng Fong, Professor of Management, Singapore Management University

Discussant: Helmut Reisen, Counsellor, OECD

The aid system is going though a major shift, in which the involvement of "new donors" in developing countries, and especially sub-Saharan Africa, is a key element. The panel assessed the implication of these new players and their practices on aid effectiveness and developing countries' relations with aid, focusing on Brazilian technical assistance and Chinese aid.

Marcelo Abreu provided an informed and critical perspective on Brazilian technical assistance and Brazilian policy *vis-à-vis* developing countries. Inviting the audience not to have a "rosy picture about Brazilian technical assistance and cooperation", he systematically underlined "the gap between words and deeds" in Brazilian aid policy. Overall, he argued that Brazil does not necessarily provide an alternative to more 'traditional' donors, and might only add little to the aid "business as usual".

Firstly, Marcelo Abreu underlined that the data on Brazil's technical assistance and aid in general is very scarce and outdated, which makes its close examination and assessment uneasy.

Aid allocation for Brazilian technical assistance is guided by concerns that are common to most donors: when it does not focus on its poor neighbours in Latin America, Brazilian aid is based linguistic and cultural criteria (lusophone African countries) as well as diplomatic concerns (oil and electricity provision).

Brazil's participation and commitment in UN operations has increased, as Brazil is a candidate for a permanent seat in an enlarged UN Security Council. Brazil has a set of triangular relations with other developing countries (mostly China, India, South Africa) that score poorly in putting developing countries' priorities forward on the

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global agenda (trade, aid, etc.) Reasons that account for this are: the very diverse economic situations between these countries (Brazil achieved low economic growth in the past years as compared to China and India), the lack of priorities within the triangular cooperation, and the fact that Brazil is overall, according to Abreu, an inward-looking country: Brazil has a very small diaspora and the Brazilian population and political class do not feel highly concerned about international issues. In his last remark, Abreu expressed doubts about whether Brazilian technical assistance (or technical assistance in general) can contribute to overcoming the effects of global economic inequalities between Western countries and developing countries.

Qi Guoqiang underlined the continuity of Chinese aid, since the Eight Principles were laid out by Premier Zhou Enlai in 1964. First shaped according to proletarian internationalism in the Cold War context, Chinese aid then partly focused on economic cooperation.

Qi Guoqiang then commented on Chinese aid's volume, data and structure. He recalled that Chinese aid has doubled since the late 1990s and consists in project-aid, technical cooperative aid, humanitarian aid and multilateral aid. The share allocated to Africa in total Chinese aid has increased in recent years. Economic development effectiveness has overridden social impact oriented aid in Chinese aid, and involved both enterprises and banks. Mutual benefit and two-way cooperation is also stressed. Guoqiang emphasized that the absence of political conditionality (which, according to China officials, does not foster development) and China's economic success in the past years helps China win recipient governments' confidence and trust. Qi Guoqiang then ensured that in the future, China will increase its technical assistance, with a greater focus on personal training, and its contributions to multilateral aid agencies.

Pang Eng Fong recalled that China is not a new donor *per se*, but now it is visible, and so there are expectations about China's aid. There are many things that make China and India different from more 'traditional' donors. First, the link between aid and the general economic strategy is much stronger for China (or at least more explicit). There is no moral case and popular support for aid in India or China, because populations within these countries are poor. Because the justification of aid cannot be poverty and altruism, it must rely more on national, economic interest, and a rationale for regional and international obligation. For both countries, aid is a means to affirm their new role in international relations.

A second difference between traditional donors and China and India is that the latter have a different approach to recipient government and policy dialogue than other donors, because they know how it feels to be on the recipient side of the aid relationship (with differentiated backgrounds: India is a former colony, not China), and aid has played a minimal role in the development process of both countries. China and India are more appealing to recipient governments because they themselves are economic success stories which achieved great development goals in the past decades. Both donors are known as being "pragmatic" and do not sign on to agreements developed by the major donor countries: India and China do not have a clear and

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prescriptive idea of what a “good policy” is. China does not attach conditions to its aid, but receiving Chinese aid is still conditional to the recognition of a “one-China”.

New donors present some challenges in the aid system. First, the lack of transparency on aid objectives and modalities is a feature common to India and China, even if this again is different for each country: because it has a vibrant press, more is known about Indian aid. Also, with China giving loans to African governments whereas the donor community has committed to some debt relief operations in the past decade, there is a risk of re-indebting recipient governments.

To conclude, Pang Eng Fong said that new donors will make mistakes, and the sustainability of their action and their impact on development are questionable. But so far, he acknowledges, they represent fresh funds and expertise that partners do appreciate.

Deborah Brautigam began by noting that the Western aid regime has not been meeting the expressed needs of African governments. In parallel, China committed to double their aid to Africa by 2009, which will amount to $ 20 billion dollars. The China-African summit last November reflects the Chinese renewed interests in Africa and new possibilities for cooperation. Because it is a major donor in the aid system, China challenges the aid regime in at least three ways.

(1) A shift in aid norms.

Traditional donors organize never-ending workshops on good governance, whereas recipient governments want roads. Chinese aid focuses on infrastructures and unmet needs of the private sector (joint-venture), sometimes though innovative delivery modalities (they carry out projects and others pay). By providing training and scholarships (instead of basic education), China limits brain-drain while avoiding the traditional donors’ bias for basic services.

In the “performance-based aid” model, delivery is still controlled by donors and donors are not accountable to the recipient. China has an assisted sustainability framework which allows for assessment of achievements and needs with recipient governments. When projects do not work, China comes back and helps them make their projects work with additional technical assistance and financial resources. Instead of *ex ante* conditions, the Chinese have a budget for the country, and then agree with the government on how the money is spent. China insists on ownership and not conditionality, by negotiating projects with governments and doing some feasibility studies.

(2) Types of aid

As far as the content of aid programs is concerned, Chinese aid brings diversity. Contrary to the more traditional donor community which follows aid fashions and fads, Chinese aid does not change, and that is why it is not unfashionable. China has

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not tried to transfer their politics into recipient countries. For many recipient countries governments, the Beijing Consensus on aid effectiveness is more compelling than the Washington Consensus. China itself is an economic success story and Chinese aid policy tries to support sovereign states period without strengthening a certain type of sovereignty like other donors are blamed for doing.

China is criticized for using its own team, but by doing this, China might do less donor ‘poaching,’ when donors massively hire the best civil servants to lead their projects. Post-colonial patterns in current aid relationships are strong, and Western experts working in developing countries live like kings, whereas Chinese experts have living standards that are much closer to the local ones, and their projects do no use of international consultants. Chinese aid is cost-effective, as Chinese cooperation projects build infrastructure in a speedy and cheaper way.

(3) Pressure on multilaterals

China brings some change in the multilateral arena. Chinese loans put pressure on the WB and IDA contributions. China is becoming a major source of development finance in many African countries for example, and an alternative to traditional financial sources. According to Brautigam, “China is a break in the aid cartel”. Finally, alleged bribes in the Chinese economic cooperation system challenges the donor community so-called “best practises”.

As a conclusion, Deborah Brautigam listed three challenges facing Chinese aid policy and institutions. First are governance and corruption issues. Second is debt sustainability versus the HIPIC process. And third is the necessity for transparency in aid practises.

Discussion

In the discussion, Helmut Reisen argued that criticisms of Chinese aid that consist in saying that China is “free-riding” on the development efforts deployed by the international community can be countered with some justification.

Helmut Reisen argued that because China stimulate exports and imports, it engages in something that is good for the world economy and African economies, and might make debt more sustainable for aid-dependent countries. Imported cheap Chinese products on African markets might make the local traders unhappy, but they extend supplies of goods and enhance both the purchase power and choice of the people. China helps African governments to enhance debt sustainability and build infrastructures in a cheapest and speedy way.

On the position of China on “best practices”, Helmut Reisen argued that there were little proof of greater corruption records in Chinese aid recipient countries. However, it is true that there is little transparency about Chinese aid flows.

As far as the aid system and donor-recipient relationships are concerned, Helmut Reisen made a point that the greater involvement of China or India in African countries, together with commitments made by some Latin American leaders like Chavez, enhances the leverage of recipient governments in choosing with whom to partner. He underlined that with emerging countries as major players in the aid system, there would be less “chasse gardée” amongst the traditional donor community. Reisen also arguably hypothesized that this would, in return, enhance African governments’ ownership and their accountability to their people.

He also insisted that extended dialogue about the impact of “new donors” on aid effectiveness and donor-recipient relationships is needed, and it should involve traditional donors, new donors and, above all, recipient governments themselves.

The broader discussion focussed particularly on the characteristics and effectiveness of Chinese aid. Brautigam clarified a few points. On the extent to which China uses locals, she explained that China does substitute according to countries’ capacities: in weak environments the ratio of Chinese to locals is high; but in stronger environments it is low. Chinese aid is unlikely to become tied because Chinese goods are so competitive in their own right. In terms of the respect of labour standards and human rights in African countries, both Brautigam and Helmut recalled that this debate was partially biased, because one cannot argue that US or UK firms score better. Brautigam recalled that if there is some debate about working conditions of African workers in Chinese mining firms, China applies the same standards in Africa that it applies at home – these, of course, are not high, with about 6000 people dying in mines in Chinese mines every year.

On the role of China in the donor community, Richard Manning, head of the OECD/DAC, asserted that the organization was keen on having a closer dialogue with donors such as China. He quoted that a DAC/UNDP questionnaire was sent to « new donors » in order to collect data on their aid practises. He highlighted that the double role of India for example, both as an aid donor and recipient, was a real challenge for the donor community. Indeed, India recently asked donors to leave the country if they were not prepared to scale up their aid, and this was an important message to the international community.

Qi Guoqiang underscored that for China, the prosperity of poor countries was important for security issues. He recalled that the ultimate objective of Chinese aid is recipient capacities. He confirmed that China will cooperate more with other donors in the future.

The relationships between China and the major donors, and in particular the World Bank, triggered a further debate in the audience. The first question, put forward by Ravi Kanbur, was as follows: “Should developed countries continue to give aid to the new donors through multilaterals? Reisen argued that traditional donors have various reasons to continue lending money to China. He explained that the *Agence française de Développement*, for example, runs development projects in China on behalf of the

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promotion of “global public goods”. Nancy Birdsall underlined that because China has a lot of money in reserve and it lends money to other poorer countries, World Bank loans to China might not be justified in the future. On the other side, it was stated that the World Bank should probably take China’s new role into account and give more votes and voice to China within the organization. More generally, the room asked whether the donor community should integrate China in the existing “aid cartel” or leave recipient governments the room to manoeuvre and encourage competition between donors was recognized as a crucial one.

Remaining questions

Most participants agreed that new donors may be a source of leverage for some African countries in negotiating with donors and fostering national development or promoting more sovereign objectives. However, no systematic assessment of this hypothesis was made in specific case-studies. The tension between Chinese loans and debt sustainability in aid-dependent countries also needs careful assessment.

Three other issues arise:

In which directions will the `new donors’ shift the aid agenda? Do new donors and emerging countries have the will and capacities to set a new agenda and to put recipient countries’ interests forward? Are we seeing new modalities and space for South-South cooperation already emerging?

What should guide innovation in aid practices? Should donors try to find new ways to deliver aid, or – like China – should they aspire to more continuity and predictability in their actions?

How effectively is Chinese aid (and its other economic engagements in Africa) working? How can we assess this? The presence of Chinese goods on African markets undoubtedly brings some opportunities, but does it also destabilize local markets and producers?

Rapporteur: Isaline Bergamaschi, GEG

Session VII: When Markets and Governments Fail

CHAIRS: Devi Sridhar and Rajaie Batniji, Global Economic Governance, Oxford University

Mark Suzman, The Bill and Melinda Gates Foundation
Dennis Whittle, Chairman, Global Giving
Raman Nanda, Acumen Fund
Jeb Brugmann, The Next Practice

Discussant: Jennifer Tobin, Nuffield College, Oxford University
Rapporteur and co-organizer of panel: Arunabha Ghosh, GEG

This panel explored alternatives to purely state-led or private-sector led development. Devi Sridhar and Rajaie Batniji began by outlining the GEG Global Health Governance Project which is seeking to evaluate how large new sources of funding for global public health are being allocated – and to what effect. Mapping the needs in public health against the issues and diseases that received most of the resources would indicates not only the modes of financing currently in use but also the mechanisms of accountability needed in the public health arena. The Global Health Project spotlights the emergence of new public-private initiatives, and new challenges which arise for them.

Sridhar then put four questions to each of the panellists:

1. Does your organisation aim to avoid or resolve some of the problems that governments have faced in delivering development assistance or does it manage to bypass such problems?
2. Is there a gap that remains unfilled by donor governments and conventional market-based approaches, which your organisation is trying to bridge?
3. What challenges have you faced in developing and implementing your model of assistance?
4. What have you learnt from your experience and changed in your practice?

Mark Suzman began by noting the gap between the enormous ‘name awareness’ of the Bill and Melinda Gates Foundation on the one hand, and the pauce understanding of what the Foundation actually does and does not do. The Gates Foundation operates in a crowded environment – but it is a very significant player. In the United States, alone, there area over 1100 philanthropic foundations, which disbursed $3.8 billion in 2005, of which $2.4 billion were targeted at the developing world. Three-quarters of the Gates Foundation’s $1.6 billion spend in 2006 went to research aimed at assisting developing countries. By 2009, Suzman predicted, half of the total spending would go to the health sector.

What is different about the Gates Foundation? Suzman pointed to the three principles that define the Foundation’s work: that every human has equal worth and deserves the same opportunities as another; that this is a unique moment in history when people are increasingly impatient to solve the most pressing problems facing humanity; and that solving these problems is within our reach – in fact the Gates Foundation will cease to exist 50 years after the death of its founders. This sense of urgency translates into a focus on a limited set of problems with the objective of finding scalable and sustainable solutions. Suzman argued that thanks to its resource base the Foundation can ‘take bigger bets’ but at the same time it is not a service delivery organisation. Instead, it relies on working through local partners while using a set of metrics to monitor progress.

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In public health, the Foundation's work concentrates on the discovery of new drugs and vaccines, and developing mechanisms for their delivery to the world's poor. On agricultural development, the Foundation invests in developing new kinds of seeds that are, for example, resistant to drought. In these ways, it tries to fill a gap that neither governments nor market forces have addressed. On the other hand, education is seen by the Foundation as a sector better served by the governments of poor countries. In sum, the Foundation measures long-term success as solutions that have government support but have also brought together other actors, and seeks to serve as a 'catalyst' that could help the government and private sector work together.

Dennis Whittle began by comparing the official aid industry to the Soviet-era *Gosplan* – top down, centralised, focused on large projects, with no feedback loops, the absence of pricing mechanisms, slow innovation, and little entry and exit from the 'market'. Noting that during the 1990s the list of the top 10 donors did not change, Whittle argued that there was very little accountability and competition in the aid industry.

During his presentation Whittle posed a set of questions that he believed should guide innovative practices in development assistance. For instance, who should come up with new ideas, who should determine how resources are allocated, who should pay for the same, who should implement, and who should evaluate the results? For aid to be effective there had to be vigorous competition to answer each of these questions.

At GlobalGiving.com, the key principle is that anyone with a good idea should be heard and should be able to secure funding. In other words, it establishes a direct connection between individual donors and the leaders of local projects, thus promoting what its website calls 'community-driven social change'.

But what about policy and institutional development? Whittle argued that there should be seven elements of an aid system: research, policy, resources, transactions, implementation, evaluation/feedback loops, and emergence. Underlying these elements was the need to foster competition among a range of actors. Many of these principles could be applied within existing institutions as well. As an example, Whittle suggested that were the aid industry competitive, the World Bank would be 'bought out'. It was an organisation with institutional infrastructure, staff capacity and financial resources that simply did not achieve its corresponding potential.

Raman Nanda began by acknowledging that there were lots of new actors filling the gaps that the market and states had left, such as microfinance initiatives and philanthropic foundations. In this evolving environment Acumen Fund's primary focus is the entrepreneur with the objective to provide capital that normal markets do not, help to develop business plans, and to find partners for the entrepreneurs venture.

Among the examples of projects Acumen has engaged in, Nanda spoke about:

- Water treatment plants, which started in 2005, and which by their success had now managed to raise $11m from two commercial banks.

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- A-Z Textile Mills that makes insecticide-treated bednets that last 5 years. Until now, 15 million bednets had been manufactured. Moreover, Acumen found that what cost the UN and the Global Fund $10-$15 to deliver could cost about 50 cents if truck drivers in East Africa were used to supply them.
- Dhrishti internet kiosks in India, which helped farmers ascertain the price of grain and obtain health insurance, among other uses.

In all these projects, Acumen enabled the marketplace to 'stretch'. Nanda made three additional points. First, Acumen wanted to collaborate. Its objective was not to become a very large organisation; instead it wanted to keep its scale small while helping generate the best stories, so that eventually other investors could step in. Secondly, Acumen believed in 'doing something', even if it meant learning from failures and attempting alternative solutions. Thirdly, it was 'all about the entrepreneur'.

Jeb Brugmann presented a vision of entrepreneurship of a slightly different kind. Exhorting participants to think beyond the 'messianic modernist development project', he suggested that there were errors in the way we understood the development process and, thereby, ended up excluding alternative approaches.

Brugmann argued that development has always been 'market-based', the only difference being in who has had the role in creating markets. Thus, even state-controlled markets create opportunities for rent-seeking, or the poor often use social networks to create 'informal' markets to promote their forms of entrepreneurship, both traditional and modern. A second problem has been, according to Brugmann, that we have tended to view business as purely 'extractive' as opposed to aid which is a form of 'giving back'. The important question for him is how to work with the client/customer as a partner in an iterative development process.

Brugmann pointed to how local community-led initiatives are often not supported in a top-down development process. For example, Local Agenda 21, begun by the UNEP, failed to get any investment support for the projects that local communities had identified as their priorities. Instead, funding came from the Soros Foundation to support projects in Africa and Latin America. Similarly, the World Bank created the Cities Alliance but did not support already existing community projects in China and the Philippines. As a result, communities tend to be entrepreneurial in funding their own projects.

The objective of a 'bottom of the pyramid' (BOP) approach, as first developed by Prof. C.K. Prahalad, was to use corporate leadership to 'fill gaps' by improving 'transactional transparency', whether in informal slum markets, in agricultural markets, in social markets dominated by NGOs or in corrupt public service markets dominated by state enterprises.

During 2003-2006 Prahalad and Brugmann engaged 14 large corporate clients to develop internal mandates and corporate strategies for a BOP market segment and

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then to put projects on the ground, that is new businesses specifically designed to serve low-income segments in large developing country markets. Among them, nine had developed new products and piloted them, while BP had established a strategic business unit pursuing BOP opportunities globally. Brugmann noted three conclusions based on his research of BOP households and experience with supporting projects:

- We vastly underestimate the strategies of poor households to adapt and become their own development agents, such as through migration or building even international networks to gather ‘market intelligence’
- Traditional community structures have had tremendous achievements as diaspora communities (for example, Punjabi truckers in Ontario, Canada; South Korean immigrants dominating convenience store businesses in cities in North America, or Dharavi slum residents in Mumbai running fashion wear retain chains in Florida).
- Their entrepreneurial approach has allowed BOP households to have access to greater income and savings than censuses manage to count. The question is how we can understand the transition from informal to formal business to ensure maximum developmental impact.

Discussion

Jennifer Tobin began the discussion by framing each of the initiatives discussed as on a spectrum of `gap-filling’ between government or market-based approaches and philanthropy. Philanthropists, she suggested, catalyse change while enterprise-promotion creates market institutions. While acknowledging that there are many positive stories that have emerged from microfinance initiatives, for instance, there has been limited monitoring and evaluation. Moreover, entrepreneurship-promotion had its limits. As Tobin said, ‘Not everyone in the world can be an entrepreneur.’ She argued that researchers and practitioners had to partner in monitoring and evaluation to answer the following:

- Are we really reaching the bottom; and what are the other types of gaps that remain?
- What are the institutional structures of what is going on, for example the question of assignment of property rights?
- How important is it for NGOs and philanthropists to coordinate with donors and governments, given that so much of the recent aid debate has been on better coordination?
- And what role can we envisage of politics in this process?

Tobin’s analysis drew a spirited response from panellists. `I don’t see myself as a gap-filler’ said Denis Whittle, I’m just trying to do what we already know works: `We know that economic growth works through decentralised markets but we don’t do it.’ He reiterated the need for competition among aid agencies as well as exit, suggesting that ‘harmonisation’ in any other setting would be ‘monopolistic’. For Jeb Brugmann we should see the targeting of the poor as a business decision. Businesses segment and size markets before deciding on the type of products to offer – but this is difficult in respect of the poor. Census data does not accurately measure household information or the 'profit and loss' statements. He felt that bottom-of-the-pyramid business start-ups have discovered that households have more disposable cash to purchase value-added products than anticipated. Throughout the discussion it became clear that there is far too little information about the poor and the economic, political, and social barriers to development they face. Too often donors and the new public-private entrepreneurs know very little about issues ranging from gender discrimination, how remittance incomes are spent, and how to bring better products to the market for the poor thereby increasing their choices.

Arunabha Ghosh also threw in a number of questions which further drew out panellists. Are the new private-public ventures attempting a 'double bottom-line'? What is their rationale? Nanda pointed out that Acumen Fund was focused on a single bottom line 'but with more patience'. By exercising choice for products offered, consumers were determining the sort of products they would use (say, mosquito nets or water treatment plants) that would have beneficial impacts. Jeb Brugmann said that businesses 'cost out' social benefits when developing products. For example, new types of cooking stoves and biofuels would not only reduce labour time for women but also reduce intra-household pollution and the related health effects. Mark Suzman said that the purpose of the Gates Foundation's interventions was to service the poorest in specific focus sectors: agricultural productivity; financial services beyond credit; and health. The primary focus is not on economic growth per se.

What kind of regulatory environment do such new initiatives need? In microfinance in Tanzania, for example, the central bank has become concerned about developing guidelines and accounting procedures. Suzman pointed out that new technologies were being used to effectively deliver a range of services to the poor, for instance mobile banking. In order to create transparency and trust in the process, there was need for regulation, which was the only way to ensure that new initiatives became self-sustaining long-term solutions. That said, Whittle felt that if regulation was so important then formal development agencies also had to be regulated.

The challenges of managing the politics of aid relationship recurred throughout the discussion. A stark contrast was drawn by one participant between the initiatives discussed by the panel (all based on a north-south model) and innovations like Grameen Bank which had been developed in the south. Each panellist responded to this: Nanda pointed out that half of Acumen's operations were in developing countries focussed entirely on local entrepreneurs; Brugmann said that most BOP businesses work through local NGOs; Suzman acknowledged the potential for southern voices to be left out and pointed to the Alliance for the Green Revolution for Africa, which would be based in Nairobi with African leaders on board. Whittle said that for the first five years of its operations, GlobalGiving.com was focused only on ideas being generated from the south. At the same time, he said that we need to move to a many-to-many model, with southern governments choosing which development agencies to work with, rather than northern agencies colluding in advance to deliver aid.

A related and hotly debated point was the question of evaluation and accountability. On evaluation there were disagreements. It was argued that the Gates Foundation needs better more systematic evaluation. Countering this view was the proposition that extensive evaluation has done little to enhance or improve the workings of the World Bank. At the crux of the issue is how actors are held to account. Most participants seemed to agree that accountability takes two forms: internal accountability to the board, but more importantly (yet in all cases less effectively) accountability to users and beneficiaries.

Remaining questions

Ultimately, the panel helped in three basic ways:
- Highlighting several models of development assistance that did not rely on state-led donor channels
- Focusing attention on the needs for local communities and entrepreneurs and supporting their innovations and experiments
- Underlining the difficulties that remain in monitoring and evaluating the work of these new organisations, even while trying to hold traditional development agencies accountable for their own activities.

Rapporteur: Arunabha Ghosh, GEG

Session VIII: Challenges for Multilateral Donors

CHAIR: Ngaire Woods, Director of the Global Economic Governance Programme

Richard Manning, Chair, Development Assistance Committee, OECD
Thomas O'Brien, Independent Evaluation Group, World Bank
Thandika Mkandawire, Director of the UN Research Institute for Social Development

Discussant: Andrew Hurrell, Oxford University

Ngaire Woods opened the final panel by identifying three kinds of problems with the existing aid regime which the Conference had explored:
1. Politics within donors countries: the temptation to give into special interests, protectionist interests; lack of incentives for coherence (these problems give rise to the belief in multilateral agencies that would insulate aid allocation from these pressures)
2. Perverse incentives within aid agencies: inertia, disbursement pressures; over-simplifying templates to manage a complex world; constant rotation of staff

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such that most never gain in-depth local knowledge in the areas in which they work; procedures designed to manage the donors' own risks and vulnerabilities; advice and ideas shaped by the bureaucracy itself, its need for clarity and for monitorable programs (bilateral and multilateral agencies must address this)

3. Problems within recipients: illegitimacy, insecurity within governments (see Frances Stewart's remarks)

Woods argued that the solutions discussed during the Conference variously address different aspects of these problems. For example, altering the *governance structure* of multilateral donor agencies could be a way to lessen adverse national political pressures within donors countries by preventing any one member from following their own special interests. *Getting incentives right* within donor organizations is a way to overcome the second sets of problems: for example, by deploying staff in one country for much longer periods of time, and giving the host government a role in evaluating staff would enhance the incentives to deliver greater ownership. Building *trust* and getting *accountability* right could balance the accountability of governments to donors with that of governments (and donors) to local communities.

Richard Manning began by pointing out that we must ask not only how to better achieve cooperation, but also: What are the limits of development cooperation? He noted that it is important not to overestimate the power of aid. Development is primarily an indigenous process and aid should be seen as an attempt to speed processes that will happen anyway. In addition, he posited that for many countries aid is not so problematic – they receive a small amount of aid and use it well. Problems arise for those countries that are aid dependent. *How do we handle the power asymmetries inherent in the donor-recipient relationship for aid dependent countries?* Manning described the challenges for multilateral organizations and donors in supply, delivery, and demonstrating results of aid.

The supply of aid is far too uncertain. A huge number of commitments are made, but targets are rarely reached, especially by some donors. DAC is looking at the reality of these commitments compared with actual disbursements. Countries that are not members of DAC are also important. New EU members, non-DAC OECD countries (such as Turkey and Korea), the BRICs, and Mid-Eastern countries are increasingly important suppliers of aid. We are heading towards a more multi-polar world which is less based on only North-South transfers. *Will the increasing supply lead to increasing aid dependency?* The countries in which 20% of GNI is made up of ODA are mostly small or crisis countries, yet many are just below this level. Can that dependency be managed?

The delivery of aid has been beset by two big distortions in recent years which make it hard to see the underlying pattern in aid delivery:
(1) Iraq and Afghanistan account for a high proportion of the increase we have seen;
(2) Debt relief has also had a large impact. However, the following trends in delivery can be identified.

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Trends in delivery by region: Due to Iraq and Afghanistan, aid to the Middle East and South Asia has increased. Aid to Sub-Saharan Africa increased even without debt relief, whereas in the Far East and Europe aid levels are dropping. There has been little change in the Western Hemisphere. Within regions the proportion of aid to the least developed countries is increasing. This, on the whole, makes the pattern of aid delivery more logical.

Trends in delivery by sector: Aid has fallen to the productive sector. In some ways this is a positive sign – it is good that aid to industry has fallen (much of this was buying trade exports for ourselves). However, it is bad that aid has fallen to agriculture. Part of the problem here may be lack of consensus regarding what the right intervention should be for agriculture. The decline in aid for infrastructure has caused some concern. China and the MCC are asked to deliver infrastructure, which is not surprising given the drops elsewhere. There has been a rising share of aid delivered in social sectors, in governance, and in emergency relief. Whether the increase in this last category is related to conflict, global warming, or other factors, it is clear that emergency relief is requiring a heavier tax on global aid than it did ten years ago.

Bilateral vs. Multilateral: The proportion of total aid that is supplied by multilaterals has always been around 30%, but within that the European Commission has become more important. In the UN, the contribution of donors has declined, but this is a statistical artifact - the DAC system records aid channeled from one specific country to another through the UN as bilateral. These deals are strongly incentivized on both sides. The total aid amounts for the UN would be US$4 or 5 billion rather than 1 billion if such flows were included. The IDA 15 replenishment and African Development Bank replenishment are important IFI soft loan windows, and both have taken a three-fold hit. Changing from loans to grants, foregoing flows due to HIPC, and due to other debt relief, have all reduced the amounts available. Pledges have been made to match these losses dollar for dollar, but will they be kept?

Modalities: The landscape is changing because of growth in vertical funds. This is particularly apparent in health (such as GAVI, PEPFAR, etc.). This sets up certain tensions. For example, should the World Bank get out of funding for HIV? Should vertical funds become more diagonal? How should best practices be mainstreamed within them? There is now greater recognition that the pure project model has problems such as: proliferation; and results are non-sustainable if pure stand-alone projects (for example, Project Implementation Units often leave as soon as a project is done). The Paris Declaration calls for a decrease in stand-alone projects. But there are also problems with this idea. There are risks to using country systems. We should make them competent, then use them.

There is a clear danger of accountability of donors only to themselves. Local systems provide much better safeguards. We need to figure out how to promote the media,

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parliaments, civil society organizations – these are the things that hold governments to account.

The Paris Declaration does not promote harmonization for harmonization's sake, but for better results. There are limits to the competitive model. How much cartel-like behavior is good? Do we need competition? Should there be regulations such as allowing only three donors in any one sector? Can Europe get its act together to stem proliferation?

Demonstrating the results of aid is difficult. We are bad at measuring results: the basic quality of statistics is shockingly bad (for example, the maternal mortality statistics for Pakistan use income as a proxy). It is unclear whether a focus on results will help or hinder more coordinated aid? For example, one donor's flag on a school can be seen as a "result," or the same donor along with other donors could look for evidence of a better education sector as a "result" - it is the latter story we must learn to tell. There is pressure on the way we measure results, not least because of their use in new modalities such as in the MCC and in the EC. Finally, donor evaluation is not helping much. There is a strong need for evaluation that is independent (and seen to be independent), that is high quality, and that has strong feedback loops and public accountability.

Thomas O'Brien offered comments strictly in his personal capacity and not on behalf of the World Bank's Independent Evaluation Group. He began with the challenges emerging as `global' programs and partnerships proliferate. First, developing countries have insufficient voice in deciding and shaping these programs, including middle-income countries who contribute to them. Second, the Bank has been insufficiently selective in deciding which programs and priorities to support. One notable gap has been regional programs which have been neglected and yet could have a great impact. Third, the new `vertical' global programs need much more carefully to be linked to country strategies.

Different groups of countries within the Bank have different needs. In respect of low-income countries, the Bank must make more realistic assessments of the political environment and the capacity for reform in each country – it has sometimes been over-optimistic and tends to over-reach. Deeper country knowledge and more robust analytical work is required, and the complementarity of actions across different sectors needs more careful attention - for example, combining educational investments with rural infrastructure improvements.

In fragile states (there are 25 countries in the category of low-income countries under stress or "fragile states" in the Bank), the Bank has focused heavily but with mixed results. It needs to pay closer attention to why previous efforts have failed and to avoid past weaknesses. Aid-allocation should be developed so as more closely to fit a specific country needs (avoiding both under- and over-aiding), and to support national partners in coordinating the myriad of donor assistance toward a coherent—but

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limited and realistic—reform program, based on a much deeper understanding of political economy in fragile states.

In middle-income countries (some 86 countries ranging from the Philippines to Poland), in spite of recent successes, there are still 800 million of the world's poor. Income inequality is a pronounced and worsening problem in many – in more than half inequality has worsened over the past decade. It remains to be seen whether the Bank has succeeded in reducing inequality. The Worldwide Governance Indicators show that control of corruption is below the global average in two-thirds of the MIC group including in nine of the ten largest MIC borrowers. The World Bank's role in MICs may well be considered beyond assistance for national development and, instead, in terms of global problems. As a group, MICs account for nearly 60 percent of the world's total forest area, and four out of ten MICs have experienced deforestation since 1990, with notable examples including Brazil, Indonesia and Mexico. Three-quarters of MICs have increased their total emissions since 1995, including China which is the world's second largest emitter.

Thandika Mkandawire began by noting that in the 1990s the agenda of international organizations was aimed at three things: (1) Creating developmental conditions for poor countries; (2) promoting human rights and a democratic order, and (3) making that order socially inclusive. What has happened to that agenda? What has determined which parts of it became policy?

Development was supposed to have been brought back in after two 'lost decades' in Africa. But imagine an economy in which the following errors have been made: underinvestment in infrastructure and people, privatization without regulation, liberalization in the wrong sequence, etc. Such errors create a legacy which must be acknowledged if the donor/recipient relationship is to be mended. We need an honest discussion of what went wrong. African politicians are now deeply cynical of donors - as evidenced by what they say privately in the aftermath of meetings between donors and government officials. Little attention has been paid to what Africans themselves said about the policies pushed on them in the 1980-90s. For example, as funding higher education went out of fashion in the 1980s, Africans argued that universities are needed in order to have secondary schools, which are required to have functioning primary schools. Having been ignored then, they are being told (by the donors) that there is a link between higher education and primary education.

There is a policy trap in development assistance. In the 1980s we were told that international organizations knew what policies were right, but that governments refused to implement them. In the 1990s, the question became when and why do governments adopt "good policies"? Yet good policies on their own did not produce growth. Why? The answer was `institutions'. And so institutions were promoted – but only institutions which delivered a specific set of policies. Now, even with these `good' institutions it would seem that some countries get no growth. And so the answer shifts again to include geography (Jeff Sachs), culture, and history (was it

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Cecil Rhodes who colonized us or someone else?). Yet across all the changes in analysis it is still *the same policies* which are being pushed.

The democracy agenda has been instrumentalised. In the 1980s we were told we need "strong" governments for growth. Pinochet in Chile, and other authoritarian regimes, were supported for this reason. Finally in the late 1980s it was seen that there is no trade off between democracy and growth. Democracy is now seen as legitimizing "the good policies." This has severe implications, as key policies are insulated areas from democracy. The ring-fencing of institutions from democratic process undermines democracy. Now even civil society organizations have been brought into the "good policy" story. They are moving away from advocacy to service delivery.

We must be more trusting of democratic institutions. We must recognize that it is impossible for a democracy to be orthodox – it is inherently heterodox, pluralistic. We have seen this in Latin America already, where there are more varied policy approaches.

At the global level we should beware the import of private actors into democratic processes. US officials would be upset if Bill Gates got to speak in the U.S. House of Representatives, yet he gets a voice in the UN. Who gives him the right to speak in that forum?

`Equity' is now on the agenda, as evidenced by recent reports from the World Bank and the UN, among others. What do they mean by equity though? They do not speak of redistribution, but "opportunities." We need a debate on growth processes that are democratic and socially inclusive. Because there is no overarching system on dealing with poverty, we have no sense of the linkages between different areas. What should social policy look like?

Finally, Mkandawira emphasized that we need more Third World voices when talking about aid. He proposed that a conference should be held among African leaders on Africa as an aid-recipient continent, to counter the Northern discourse.

Discussion

Andrew Hurrell opened the discussion by setting the aid regime within two broad images of multilateralism. The first envisions the spread of liberal goals, a socially inclusive world order that deals with global public goods. It builds on Western liberal models and aims to socialize others into these ideals. There is a strong prescriptive multilateralism combine with the explanatory nationalism of the 1990s. The alternative view focuses on power and the shifting global balance of power, proposing that we should base order on old-style groupings and build on hierarchies. The aid debate exists between these ways of thinking about governance. Calls to 'get a grip' and 'find a voice' are unlikely to be successful so long as aid is caught in the middle. In considering the emerging aid regime we should consider: how different constituencies might best be represented; how security imperatives affect aid and

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which parts of the world matter most; how to make the different bits of the governance debate add up to a coherent whole, and how the changing global picture will reinforce relationships of mutual dependence/interdependence. A further exploration of the role for regionalism in managing this was proposed.

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