DONORS AND RECIPIENTS

by Eveline Herfkens [1]

Goal 8 is about global partnership. The donor countries must open their markets, require more debt and raise the quality and quantity of external transfers to complement sound and responsible governance by the developing countries. Both sides of the VARIANCE must be met if the MDGs are to be realized.

I had the honour of addressing this same forum in May 1999 in Addis Ababa, on the very same subjects we are discussing today. On that occasion, I roundly criticised donor behaviour: imposing our hobbies and forcing counterpart and recurrent costs onto your budgets while not respecting your priorities, caring more about our visibility than about your development outcomes. I also criticised our micro management and our multiple different procedures for accounting, evaluation and monitoring. At the time, I promised better behaviour, ultimately leading to direct budget transfers for agreed poverty reduction strategies.

The good news is that now, three and a half years later, most donors rather than two or three acknowledge that they are part of the problem. By now, there is genuine consensus in the OECD/DAC, in the Development Committee and in other relevant donor fora on what we donors have to do to become part of the solution. We see a new emerging consensus on a framework of mutual obligations and responsibilities, in which both parties pay their dues. We see it reflected in NEPAD,[2] in the Millennium Declaration, in Monterrey. Of course, Africa has the primary responsibility for its development, but in turn deserves trade opportunities and more timely, better coordinated and more comprehensive support.

The bad news is that most donors do not actually walk their talk. What does "mutual obligations" mean? It implies both parties doing their share, each party paying its share of the bill. In short: "Go Dutch", as we say — with apologies to the interpreters and to the non-English speakers in the audience. And I will spell it out for you: *G-O-D-U-T-C-H*.

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1 Eveline Herfkens ,now Special Advisor to the Secretary-General for the MDG Campaign, delivered the address below to African Ministers of Finance at the 2002 meeting of the UN Economic Commission for Africa when she herself headed the Dutch Ministry of Development Cooperation, on behalf of other OECD donors.

2 NEPAD is the acronym for the New Economic Partnership for African Development.

G is for Global Governance, global partnership. It is the rich countries that set and enforce the global rules of the game regarding trade, finance, migration, etc., which hinder Africa's participation in the global economy. Without that, the first Millennium Goal, halving poverty, will never be achieved. Thus, MDG 8, which deals with global partnership is, in my view, the most important thing that development partners should focus on.

O is for Ownership; the heart of NEPAD, the new paradigm that we agree on, but which has not really gone beyond lip service.

D is for Debt; let us deal with debt decisively for once and for all.

U is for Untying aid, an issue that has been discussed for decades, but now more than ever is acutely needed.

T is for Transfer of resources — more, real, better targeted, predictable, multi-year, flexible resources.

C is for Compensatory financing in the event of external shocks, for which the country is not to blame.

H is for harmonisation. We must harmonise not only our delivery mechanisms for aid, but also our market access opportunities.

GO DUTCH. Now let me elaborate on each of these seven themes.

We OECD countries have to ensure that all our policies that affect African development are consistent with our pledge to achieve the Millennium Development Goals (MDGs). Many reform programmes in Africa based on export-led growth have failed. They will continue to fail unless participation in the global economy becomes a reality for Africa. For that to happen, we have to open our markets. At present, the playing field is not level. Protectionism in the North is focused precisely on those products that matter to African producers — labour-intensive products and agricultural commodities. And we are carrying on with agricultural subsidies that crowd out African producers.

In Doha, a development agenda was agreed. Nice words, but since then we have seen no real action. Of course global partnership also includes trade in services, migration, TRIPs, etc. For these reasons, I am proud to have been part of the last Dutch government. In his address to the South African Parliament, Prime Minister Wim Kok made us the first rich country to break ranks by stating that affordable medicine for the poor was more important to us than the patent rights of pharmaceutical companies.

G: Global partnership is needed to make aid relations ultimately redundant. And of course, you would rather earn your foreign exchange on the international market than have endure endless lectures by World Bank and International Monetary Fund officials and all these development ministers.

O: A lot of lip service has been paid to ownership, but I am afraid that business still goes on as usual. Many donor countries still do not understand the profound paradigm shift: to acknowledge that we don't develop you, but that you develop yourselves, that you take charge. And that the only effective aid is aid that respects your priorities, is aligned behind home-grown poverty reduction strategies and limits conditions to issues that are derived from these home-grown strategies.

D: Deal with the debt decisively. As I said three and a half years ago, the HIPC[3] initiative is too little and too late. Too many African countries spend more on debt service than they spend on social services. Because the HIPC initiative is consistently underfunded, the numbers have been shrunk down to fit the envelope. Even for countries meeting all the criteria, there is too little light at the end of the tunnel. The initiative did not result in a sustainable debt burden. Let me specify here that it is most of the G-7 and not the G-0.7 that fail to meet their commitments

U: Untie aid. Tied aid is costly, it distorts agreed priorities, it burdens you with ever-increasing local and recurrent costs and it invites corruption. An old debate. Still, too little has happened, except for a first step dealing only with aid to the least developed countries. Actually, I am concerned about an opposing trend. Here, in Johannesburg, a multitude of so-called type II initiatives have been launched. I ask the Ministers of Finance to please make very sure this is not the old supply-driven, tied-aid project approach in a new disguise.

An important area of tied aid has always been technical assistance. Right up to the present, a billion dollars of grant money a year has been spent here in Africa on technical assistance. These massive injections of old-style technical assistance have failed. Resident expat staff is trying in vain to superimpose institutions and concepts on the existing social and political fabric and norms and values. In the meantime, this practice is undermining institutional capacity, perpetuating aid dependency and destroying local people's motivation to take charge of their own futures. For NEPAD, too, it is of crucial importance to focus upon home-grown African capacity-building — and for African countries to develop their own strategies, allowing only truly demand-driven forms of expatriate support.

[3] HIPC stands for Highly Indebted Poor Countries.

T: Transfer of resources. More resources. The good news from Monterrey is that at least the EU reconfirmed the 0.7% ODA target and agreed to a concrete time frame with intermediate steps towards that objective. Real resources. Donors should refrain from creating new debt problems. For poor countries, only grant money will do. Better-targeted resources. Half of it leaks away to middle-income countries. Aid must be targeted to those that need it — low-income countries — and those that have policies and institutions in place to use these resources effectively. More predictable, multi-year, resources. While we as donors require accountability and transparency, recipients should know in advance how much money is coming, when, and under what conditions. When I took office four years ago I found out that we spent more than 60 million euros in Mozambique on hundreds of projects, none of which the Minister of Finance was aware of. By the end of my term, we supported Mozambique's own development objectives through its own central budget. And so indeed, also more flexible resources — not tied to projects, but through your budgets, including for recurrent costs.

C: Compensatory financing. Of course, only under strict conditions. We have dismantled unconditional compensatory financing mechanisms — of the kind Lomé provided, for instance. And rightly so, as these in fact discouraged much-needed diversification. But we must acknowledge situations in which countries did everything they should, met all HIPC conditionality and have good poverty reduction strategies. After years of reform, they are hoping to see light at the end of the tunnel. But the light turns out to be the incoming train of terms and trade moving against them. Donors cannot close their eyes to the issue of Africa's external vulnerability and its limited capacity to absorb shocks. The rules of global finance are tilted against developing countries. You are supposed to react in a Pavlovian way to external shocks by tightening fiscal and monetary policies even further. Even if you have already cut down your budgets to the bare bones: pro-poor spending only. And even though austerity policies sacrifice much-needed economic growth, jobs and income. Such policies are counterproductive as you strive to achieve the MDGs. However, donors in cooperation with the international financing institutions, must acknowledge the problem and come up with a more effective answer, beyond the existing Compensating Financing Facility in the IMF.

H: Harmonisation, and let me add, simplification and division of labour. A lot of talking and activity took place in the last three years on the issue of reducing the transaction costs of aid through harmonisation. Workshops, guidelines, good practice papers, country pilots, the OECD/DAC taskforce, the Multilateral Development Bank's technical group, culminating next February in Rome at a high-level forum on the subject. But I ask: where is the beef? The

> Development Committee communiqué language on the issue of harmonisation this fall is exactly the same as a year ago. Where are we headed? Many failures of aid that you are blamed for actually represent the failure of the donor community to harmonise and adjust our delivery systems. Donors should finally get rid of their multiple, high-cost aid boutiques, planting flags and offering only their hobbies. As far as these are relevant at all, they are very limited in geographical and sectoral scope and undermine ownership and local institutional capacity. Donors have to stop pushing blueprints for development written at their headquarters. They have to shift from procedures to real impact. They have to move away from supply-driven projects. Sometimes these projects have had temporary successes at the micro level. But they have been irrelevant and thus a waste of scarce resources at the macro and sectoral levels.
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> Harmonisation not only regarding aid practices. Why does every OECD country have its own trade preferences? It is impossible for a poor country in Africa to work through the spaghetti bowl of rules: the EU's Everything But Arms initiative, the US African Growth and Opportunity Act, the various schemes of Japan, Canada, Norway, etc. Why not expand EBA to all well-performing countries in Africa? Why not have all the Least Developed Countries included in the American initiative? Let us harmonise all these different schemes and bind them in the WTO.

In short, I call on all development partners and I look forward continuing to do so in my new job: "Go walk your talk, Go Dutch". But I am also making an appeal to you African Ministers of Finance as well. We need the African voice in our debate and I am pleased to see that this weekend the articulation of an African position on these issues is on the agenda. The obstacles are huge for Development Ministers who try to Go Dutch.

We cannot do so, unless you help us. Help us overcome the vested interests in our own societies. Help us fight aid fatigue by showing concrete results. Help us deal with parliaments that rightly want to see outcomes, preferably attributable to our own funding. Help us with better data. You have to address poverty data gaps, you have to improve your statistical capacities and your dissemination systems. This is also good for you: decision-making in a statistical vacuum is very costly and undermines accountability to your own people.

If you want budget support, then that presupposes decent public expenditure management on your part. Otherwise you can't expect budget support. It presupposes accountability to your own people and your policies being validated by your own people. In particular, you should allow and foster parliamentary scrutiny, and not only civic engagement. Budgeting systems are important as well, to absorb increasing aid levels. I am concerned about how many donors have started complaining about the absorptive capacity problem. Please help me remove that fig leaf, which is used as an excuse not to raise ODA. Prove that you can cope with more funds, especially in sectors relevant to the MDGs, such as health and education.

Ownership can only work if you, Ministers of Finance, take charge and take responsibility. That implies your active involvement in the public debate leading to poverty reduction strategies, underlining the limitations of the envelope and educating people about the concept of opportunity costs. Taking charge also means: say no, make the donors accountable, say no when doing business with a donor is just too costly, say no to supply-driven and tied aid.

I acknowledge that this is a tall order. It presupposes a high level of performance and governance. I am aware that some in this audience object to increased linking of aid to performance. However – as a friend – I will tell you the truth: performance-driven allocation of aid is here to stay. The reality is that the same amount of money lifts three to five times as many people out of poverty in well-performing countries. Taxpayers and legislatures insist on more bang for their buck in terms of reducing poverty and child mortality and getting kids to school. There is no such thing as aid fatigue – as long as aid contributes to achieving the MDGs.

There is, however, fatigue among northern taxpayers and parliaments when it comes to bailing out local elites who fail to deal with poverty in their own country. Local elites who prefer to continue rent-seeking instead of pushing for reform in order to achieve real and sustainable poverty reduction by achieving the MDGs. These goals are part and parcel of the Global Deal, of the mutual obligations which are at the heart of NEPAD and which we codified in Monterrey.

Let us go to work and let's "Go Dutch", by each doing our share.