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OXONIA Roundtable: Toward a New Aid Architecture

Oxford, 26 November 2004

OXONIA was delighted to welcome as guest speakers Masood Ahmed, Director of Policy at the UK's Department for International Development, and Robert Guest, Africa Editor of the The Economist magazine. They were joined on the panel by Domenico Lombardi, President of OXONIA. Ngaire Woods, member of OXONIA's Academic and Policy Board, chaired the meeting.

Summary

All participants agreed that there is significant scope for improving the current architecture for the delivery of aid to low income countries (LICs). In particular, donors should find ways to reduce the burden on the administrations of recipient countries by harmonising their practices, procedures and delivery mechanisms. Providing more development assistance (DA) in the form of budgetary support and/or debt relief would help and would also reduce the scope for donor micro-management. While the speakers agreed that robust institutions and good policy were critical to successful DA, there were no ready answers as to how to tackle poverty in those countries without a strong policy environment. The role of the IMF in LICs came under particular scrutiny. Should it have a "maximalist" role of providing dedicated medium to long-term lending alongside policy advice; a mid-way role of providing surveillance and advice only; or should it get out of LICs altogether?

Masood Ahmed

Masood Ahmed opened the meeting, setting out his views of why this was a good time to improve the existing aid architecture and of the five measures that could be taken to improve the delivery of DA.

Ahmed noted that, although there had been some adaptation, the architecture for the provision of DA had not changed fundamentally in the last fifty years. He nevertheless observed five reasons that reform of this architecture was now particularly timely. Firstly, the volume of aid is projected to increase by at least 30% in the next ten years. Secondly, there have been progressive changes in the purposes to which aid is put with donors increasingly willing to fund recurrent expenditures. This raises questions of predictability and the duration of donor commitments. Thirdly, and partly in response to the MDGs, donors are increasingly moving to a results-focus and away from an inputs-focus. Fourthly, there is an increasingly large mismatch between the requirement of multiple donors for dialogue and the capacity of the recipient to engage in such dialogue. Finally, the distribution of current aid is not systematic or organised in a rational way, leading to vast differences in the volumes of aid flowing to objectively similar countries.

Ahmed went on to point to five tangible, achievable changes that would have a real and tangible effect on improving DA. Firstly, reforming governments in poor countries should be given more space to drive their own policy agenda and set their own terms for their relationship with donors. This would require limited conditionality, strengthened budget systems in these countries and an end to micro-management by donors.

Secondly, new ways must be devised of working with those governments who are not leading performers. The model whereby international donors support reforming governments and therefore create incentives for other to improve their performance was not delivering. In many states, it took a long time to adapt to such incentives and 40% of the world's poor live in poorly governed states. The new security imperative was making foreign policy makers increasingly concerned about global inequality, but when they asked development practitioners what to do about poverty in poorly governed states, they did not have an answer.

Thirdly, there was a major challenge and opportunity in managing the entry of the new EU member states into the international donor community. From a position of giving very little, if any, ODA, they would be required by EU regulation to give 0.3% of GNP. The challenge was to ensure this was given in effective ways and channelled through existing mechanisms and not through further, new agencies (although the current EU members stood to be accused of hypocrisy if they pushed this line too hard). Fourthly, there was a pressing need for the reform of humanitarian aid. It had major problems of inconsistency, delays and coordination between multiple agencies. The current political momentum to overcome these difficulties needed to be harnessed to improve coordination under UN control.

Finally, Ahmed pointed to an area where, he admitted, he was less confident of progress being made in the next five years: the reform of the Bretton Woods Institutions (BWIs). The BWIs were critical actors as they set much of the framework within which other agencies operated. Moreover, they were largely effective: analysis on relative effectiveness showed that IDA is more effective than most other kinds of ODA. But their effectiveness was being eroded by challenges to their legitimacy that compromise their ability to do business. Steps therefore needed to be taken to improve their governance and legitimacy. In the case of the IMF, it was unclear what the institution, its shareholders, or its recipients thought its role in LICs should be. The critical question was: can the IMF continue to run two business (one to resolve crises in middle income countries (MICs), the other to support long-term development in LICs) within the same institutional framework and from the same building?

Robert Guest

Robert Guest took as his starting point the 20th anniversary of Band Aid. Much had changed in the world in this period and yet Africa's problems remained largely unchanged. Why was this?

Guest set out what he described as the conventional wisdom on aid: "when policies are sound and institutions are strong, aid works". He illustrated this with reference to the experiences of Zambia and Botswana. Whereas Botswana had moved from being one of the poorest countries on independence to being a comfortable MIC, Zambia had gone from a position of relative prosperity to one of devastating poverty. Guest ascribed this largely to the government and policies each country had experienced.

Guest further emphasised that aid could not buy good policy. It was not possible, he argued, to persuade unwilling governments to change their policies by offering them aid. Since aid was fungible, even if donors could observe that the project which they had funded had been realised, they could not control what the recipient government did with the money it might otherwise have used on that project. Guest said that he had recently spoken with Congolese people who were astonished that donors were continuing to provide aid to a Rwandan government which had managed to finance two invasions of their lands in the last ten years.

Guest rejected absolutely the argument advanced by Jeff Sachs that, when one corrects for poverty, African states are no worse governed than many others. To conclude that Nigeria and the Central African Republic were averagely well governed was, in Guest's view, preposterous. Rather than additional resources, Guest argued that such states needed effective policing and honest government to stamp out corruption and misuse of resources.

Guest's contended that donors should provide budgetary support to governments who would, generally, 'do the right thing'. This was far preferable to micro-managing ODA. Donors should also increase debt relief, since it had the additional benefits of diminishing donor's interference in the choices of the beneficiary government and of reducing the donor-led reporting-overload that was hampering the efforts of over-stretched administrations to actually tackle poverty.

Guest was clear, however, that no country ever grew rich from charity. The best way to tackle poverty was to stimulate economic growth and the best way to do this was through successful, trade-led growth. Northern governments should therefore open all their markets to all goods from developing countries immediately.

Guest finished with five top tips for donors:
- be selective in the allocation of aid and have your choices independently assessed;
- set clear conditions for continuing to make transfers, removing the element of discretion from aid flows;
- agree on one lead donor (agency) for each recipient to reduce administrative burdens on the recipient;
- give more;
- don't forget the importance of infrastructural investment in roads and dams.

Domenico Lombardi

Domenico Lombardi focused in his presentation of the role of the IMF in LICs. A number of commentators had suggested that the IMF should not be lending to LICs, while some policy-makers tended to treat the IMF's involvement in these countries as though it were temporary. Lombardi wanted to challenge both views, by setting out the case for IMF engagement before going on to examine how the IMF should best engage.

Lombardi presented the IMF's general function as being to provide a series of public goods: information on the quality of policy making in a given country; provision of expertise in macroeconomic policy making; capacity building through technical assistance and training; catalytic lending to countries with appropriate policies; support for reformist groups within countries. All of these functions applied equally to LICs as to other countries. Moreover, LICs were members of the IMF and therefore entitled to its assistance in just the same way as others.

Turning to the question of how to engage with LICs, Lombardi began by setting out the actions of the IMF to date. In quantitative terms, one could observe the preferential terms which had been developed for LICs through the PRGF lending facility. This offered LICs much lower interest rates, longer grace periods and longer maturities than the IMF's standard lending facilities. One could see a significant shift towards concessional lending to LICs from 1986 onwards so that it now accounted for around 90% of total lending to LICs by the IMF. In qualitative terms, the PRSP process had set a new framework for the IMF's interaction with LICs which prioritised country ownership of policies, aimed to provide more policy space for national priorities and encouraged more budgetary allocation toward social expenditures.

Lombardi's conclusion was that the IMF needed to (and up to a point had) tailor its policy toolkit towards the specific needs of LICs and do more for them. This required some additional research. Whereas there was some consensus among economists on the policies to provide economic stabilization, more work needed to be done to come to a common view on the causes of growth and strategies for poverty reduction and on their relationship. This work would also feed into the application of the IMF's approach to country surveillance to LICs. It should, for example, take more account of the impact of adverse exogenous shocks and of the social implications of macroeconomic policies, and discuss explicitly the attainment of the MDGs in relation to the current policy stance.

Lombardi pointed to a number of challenges if the IMF was to achieve this improved function in respect of LICs. A cultural shift was needed within the institution. The IMF needed to strengthen its engagement with other donors, and especially its coordination with the World Bank. Finally, the IMF had to operationalize the MDGs in its work with LICs.

Discussion

A number of questions focussed on the issues raised by Ahmed and Guest on the optimal institutional and policy framework for pro-poor growth. Where do good institutions come from? What should be done for LICs with poor institutions?

Guest felt that good institutions could only be built in response to an impetus from within. At this point, donors could be effective in providing technical support to those who wanted to reform. Ahmed accepted the broad point that conditionality cannot buy reform and that it was much harder to influence future recipient behaviour than had been accepted in the past. He noted that the trend was now to rewarding a currently good policy environment, but acknowledged that this left open the difficult question of how to reduce poverty in countries with a poor policy environment.

Other questions probed Lombardi's presentation of the case for IMF involvement in LICs. Should the IMF not focus on its comparative advantage in the management of macroeconomic crises, and leave long-term development to other institutions and agencies?

Lombardi reasserted that the IMF had obligations to LICs as a significant part of its membership (42% by number of states; 9.5% by quota-share) and those members would most benefit from the public goods it could deliver. Ahmed challenged this "legalistic" view. He felt that it was quite legitimate to ask whether the IMF should be engaged in dedicated lending to LICs. It was possible to envisage the IMF still providing surveillance of these countries, without lending. The two functions could be distinct. If, however, it was concluded that the Fund should be lending, this had major implications for how the Fund operated, including on whether it should have more permanent representation in borrowing countries. The question thus represented a large strategic choice for the Fund.

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