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Aid: what's next?

Andrew Rogerson and Simon Maxwell*

As birds fly south and beaches empty, the aid community is gathering for a new school year at the joint annual meetings of the IMF and the World Bank. There are some big, set-piece exams in the coming year, with the UK leading the way: in chronological order, the report of the Africa Commission, the G8 Summit in Scotland, our EU Presidency, and the UN Summit in September next year, on progress towards the Millennium Development Goals. Aid will feature prominently in all of these. There is more money available, but there are also five key tests hidden in the timetable. Will governments pass?

There have been many calls for the President of the World Bank to be appointed in a transparent selection process, based on merit and open to all nationalities.

First, governments need to decide on a new President for the World Bank, to replace James Wolfensohn, whose term expires in 2005. Historically, the job remains in the patronage of the US President, to balance a European appointment to the IMF. This is obviously wrong, and there have been many calls for The President of the World Bank to be appointed in a transparent selection process, based on merit and open to all nationalities. The European donors are unlikely to stand up for a better process, having just secured the IMF post for their own candidate, the former Spanish Minister of Economy, Rodrigo Rato. But they should – and should insist on a candidate, whoever wins the US election, committed to the pro-poor and internationalist position that Wolfensohn has largely followed. Developing countries should also be staking positions here. Should James Wolfensohn be asked to stay on while a new appointment process is put in place?

Second, the replenishment of the International Development Association, the IDA, needs to be decided by December and ratified by June next year. The IDA is the soft loan window of the World Bank, committing some $8 billion a year towards poverty reduction programmes in 70-odd countries that have little or no access to financial markets. In many of them, IDA is the largest external funder. In most, it has huge influence.

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The US has been pushing IDA to provide most if not all of its assistance as grants not loans. This is consistent with the global campaign for greater debt relief to poor countries, for most of whom IDA is now the largest remaining creditor. A more selective proposal would be to give grants only to those countries that have no reasonable prospects of repaying - around a quarter of the total. Either way, governments should support a strong IDA for the poorest countries. If they decide to be magnanimous, by increasing the share of grants, they should provide additional funding so the burden does not fall on future borrowers.

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Third, however, the governance of the IDA, as for that matter the Bank as whole and the IMF, needs review. At present, the big donors dominate IDA policymaking and poor countries play only a supporting role. This needs to change. A progressive UK government would be pressing for greater direct accountability to poor countries, even though this will dilute its own very substantial influence. It would offer significantly increased funding in return for improved governance. It could start by measures to increase the lamentably low influence of Africa, as that is the key theme of the G8 next year.

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Fourth, we are going to hear a great deal in coming months about Gordon Brown's brain-child, the International Financial Facility. This is a device to accelerate aid flows by raising

* Andrew Rogerson is a Research Fellow of the Overseas Development Institute; Simon Maxwell is its Director.

money on bond markets, using promises of future aid as collateral. If the IFF does achieve enough momentum for lift-off in the next year, the critical question will be how to manage the money. Will this simply be a way of channelling more cash to an unreformed set of multilateral agencies? Or, equally unsatisfactory, will it be ear-marked by individual donors as an extension of their bilateral aid? The best option would be for governments and agencies to bid for money on the basis of poverty impact, introducing genuine competition into the aid system. The UK Chancellor is strongly committed to results-based management: this is his chance to transform the essentially patronage-based allocation systems which prevail at present.

Finally, competition in the aid system would help resolve the incoherent and inefficient structure of the aid industry. There are more than ninety international public aid agencies at present, ranging from very large to very small, with a high degree of overlap. Imagine being, say, Mozambique and facing fifteen or more official delegations just on education development, or more visiting aid missions overall than there are days in the year.

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The market structure for aid resembles nothing as much as one Wal-Mart and a whole string of corner shops. It would be both unstable and monopolistic in a genuine market, socially inefficient and politically unacceptable. But this is not a market, and it is not well regulated. No major aid agency has closed for decades while many more have opened. The irony is that, unlike supermarkets and shops, the same owners – rich country governments – control all the outlets. They could decide for things to be otherwise, if they had the will.

After many years of decline, aid is at last increasing. More aid will help towards reaching the Millennium Development Goals, but it is not enough. The next big challenge, and the biggest task facing governments next year, is to take on reform, creating an aid system that is streamlined, effective and accountable. UN reform is at the heart of this, which is why next September's summit is important.

Will governments around the world pass their exams? The beginning of the school year is an optimistic moment. Let's hope they do.

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Overseas Development Institute, 111 Westminster Bridge Road, London SE1 7JD
Tel: +44 (0)20 7922 0300, Fax: +44 (0)20 7922 0399
Email: opinions@odi.org.uk
Website: www.odi.org.uk/publications/opinions