Pan-Atlantic Development Cooperation for the 21st Century

Food-for-Thought Paper
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For more than half a century the aid policies of the U.S. and Europe did not change much. Developing countries received aid, consisting mostly of transfers of financial resources through loans and grants or technical assistance given to address the perceived lack of local institutional capacity.

Since the turn of the millennium the landscape changed. First, countries that were once poor became economic powerhouses and started their own foreign aid programs. Second, traditional donors in the OECD's Development Assistance Committee (DAC) committed to change their programs based on lessons learned from accumulated evaluations of aid effectiveness. Unfortunately, implementation of traditional donors' commitments to improve aid effectiveness has been lagging and the international aid architecture has not been updated.

For aid to be effective, the most critical issue is that donors and recipients have a common understanding that donors do not develop countries. Developing countries develop themselves. Such an understanding leads to developing country ownership of the assistance program without which no aid yields lasting results.

Traditionally, aid was essentially a collection of individual, donor-run projects. This approach does not tackle the root causes of the persistence of poverty, as it ignores the overall policies and responsibilities of the developing country government. Instead, aid should be integrated in the recipient's regular planning and budget systems. Where possible, donors must support developing countries with predictable multi-year funding for *their* home-grown programs and transfer the management of aid to the partner government.

The worst performing sector of traditional aid is technical assistance/capacity building. Effectiveness of capacity-building depends fully on it being demand-driven and locally owned. Even today, less than half of technical cooperation flows are consistent with national development strategies, which reveals how much technical cooperation is about what donors wish to supply – and how little it is about what a country needs.

The good news is that new donors like Brazil fully understand and respect the importance of ownership; and sharing their own development experiences with emphasis on the "how-to" aspects of implementing development projects and programs is their strongest comparative advantage.

Clearly, the experience of new donors is more attuned and applicable to partners because the development challenge faced by developing countries today is more likely to mirror that of recently emerging countries than those of developed countries a century or more ago. Plus the value for money is much higher as costs for these donors programs tend to be lower.

Thus, a new aid architecture should arise: "new" donors could primarily focus on transfer of knowledge, while "traditional" donors focus on continued transfer of financial resources to poor countries that need external concessional resources. A promising approach, promoted by the Center for Global Development and piloted by UKAid/DfID, is "cash on delivery": disbursing aid contingent on agreed measurable outcomes. Such aid gives recipients full responsibility and authority over funds paid in proportion to verified measures of progress. Such an aid modality rebalances accountability and reduces transaction costs.

Finally, OECD donors in general and Europe in particular have for decades acknowledged that development cooperation is more than aid: their overall policies need to be coherent with the objectives of aid. Both the EU and the U.S. have pursued trade policies that damage developing country trade prospects, especially in agriculture. Allowing poor producers access to emerging country and OECD markets is a good complement and in some cases may even be more relevant than aid.

Lack of WTO action in this area is particularly worrisome at a time that Sub-Sahara Africa is marginalized in the various emerging interregional transatlantic trade pacts. One of the things that can be done is to implement throughout the transatlantic area a common duty-free and quota-free treatment scheme for Least Developed Countries (LDC's) and low income African countries. At the moment there is a hodgepodge of different schemes with different rules and different country coverage in the US, the EU, Canada and Brazil. Their complexity reduces their value to poor countries with limited institutional capacity. A new initiative to harmonize trade preferences to poor countries could complement improvements in aid effectiveness and a new aid architecture.