

Module 7

Financial Administration and Development Aid

Introduction

In this module we look at some major international organisations that are involved in global economic development, and in particular, multilateral donor agencies. The module will examine the goals and organisational structure of these organisations, as well as some of the critiques of the same. It provides an overview of aid coordination activities.

Upon completion of this module you will be able to:



Outcomes

- *identify* international organisations involved in development and institution building in the global south.
- *compare* different approaches to aid coordination and management.
- *assess* the success of these organisations in locales you are familiar with.

Terminology



Terminology

NGO	Non Governmental Organisation
IMF	International Monetary Fund
Surveillance	An in depth appraisal of a country's economic situation for the purpose of developing policy to stabilise exchange rates and promote economic growth.
PRS	Poverty Reduction Strategy Papers outline comprehensive strategies to promote growth and reduce poverty.
IDA	International Development Association
IBRD	International Bank for Reconstruction and Development



IFC	International Finance Corporation
MIGA	Multilateral Investment Guarantee Agency
ICSID	International Centre for Settlement of Investment Disputes
HIPC	Heavily Indebted Poor Countries Initiative
INGO	International Non Governmental Organisation
PIP	Public Investment program

Key multilateral donor agencies

There are several key organisations that operate globally to aid the global south. The stated objectives of these organisations are to work to promote both economic and social goals in the emerging economies. The United Nations and its special agencies, the Asian Development Bank as well as non-government organisations (NGOs) all work towards developing economies in these countries.

United Nations auxiliary organisations

As highlighted in module five, the United Nations comprises of six main branches:

- the General Assembly
- the Security Council
- the Economic and Social Council
- the Trusteeship Council
- the Secretariat
- the International Court of Justice, located in The Hague in the Netherlands.

In addition to these six main branches, the UN has a number of specialised agencies and runs many large programs. Two specialised agencies that are part of the United Nations family are the IMF and the World Bank.

The International Monetary Fund (IMF)

The International Monetary Fund was created in 1945 to promote the health of the world economy, international monetary cooperation, exchange stability, and orderly exchange arrangements. The goal of the IMF was to build a framework for global economic cooperation in order to prevent the occurrence of the Great Depression of the 1930s, and the

subsequent world war that followed. The IMF seeks to foster economic growth and high levels of employment by tracking global economic trends and providing a forum to discuss issues. In addition, it seeks to reduce poverty by providing advice and temporary financial assistance to countries to help ease balance of payments adjustment.

The IMF is headquartered in Washington, D.C. and consists of 188 countries from all over the globe. Very few countries of the world are not members – these notable exceptions include Cuba, North Korea and Taiwan. New members must apply and be accepted by the majority of existing members. Each new member is assigned a quota that is roughly based on the size of a country's economy. The total amount of quotas is the most critical factor that determines the IMF's lending capacity. The annual expenses of running the Fund are met mainly by the difference between interest receipts (on outstanding loans) and interest payments (on quota "deposits").

A country's quota determines its financial commitment to the IMF, the weight of its vote, and its ability to access IMF funding. Although quotas are reviewed every five years or so, beginning in 2008, the IMF initiated some major reforms to both its quotas and governance to reflect shifting global economic relations, and in particular, the emergence of the BRIC economies (Brazil, Russia, India and China). As the old adage goes, power follows money; the institutional structure of the IMF gives more voice to large and dynamic economies than to small and weak ones.

The IMF is jointly governed by and accountable to the governments of its membership. An executive Board of 24 members oversees the day-to-day work of the IMF. The organisation has a staff of 2,400 people drawn from 144 countries, and as of March 2013, has quotas totalling \$360 billion, and loans outstanding of \$226 billion. Also during the fiscal year 2012, 126 surveillance consultations were undertaken. The surveillance process involves reviewing a country's policies and financial developments at the national, regional and global levels. The IMF then provides "advice" to the country with the aim of fostering economic stability while reducing its vulnerability to economic and financial crises (The International Monetary Fund, 2013b).

Article I of the Articles of Agreement sets out the IMF's main responsibilities:

1. promoting international monetary cooperation
2. facilitating the expansion and balanced growth of international trade
3. promoting exchange stability



4. assisting in the establishment of a multilateral system of payments
5. making its resources available (under adequate safeguards) to members experiencing balance of payments difficulties

The IMF employs three main functions to accomplish its objectives: surveillance, technical assistance, and lending money.

Surveillance

Surveillance provides the mechanism for dialogue and policy advice on international monetary problems. Usually once a year, the IMF conducts in-depth appraisals of each member country's economic situation. Discussions take place with the country's authorities on the policies that are most conducive to stable exchange rates and a growing and prosperous economy. The IMF also combines information from individual country consultations to form assessments of global and regional developments and prospects. Reports are published twice yearly in the World Economic Outlook and the Global Financial Stability Report.

Technical Assistance

Technical assistance (including training) helps member countries strengthen their capacity to design and implement effective policies. Technical assistance is offered in several areas, including fiscal policy, monetary and exchange rate policies, banking and financial system supervision and regulation, and statistics. These services are usually free of charge. Also, in the event that member countries experience difficulties financing their balance of payments, the IMF can be used to help in recovery.

Financial Assistance

Financial assistance provides member countries room to manoeuvre when they need to correct balance of payments problems. However, continued financial support is conditional on the effective implementation of a policy program designed by the IMF and national authorities.

The IMF works to reduce poverty in countries around the world, independently and in collaboration with the World Bank and other organisations. It provides financial support through its concessional lending facility, called the Poverty Reduction and Growth Facility (PRGF). It also provides assistance through debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative.

In most low-income countries, this support depends on the implementation of Poverty Reduction Strategy Papers (PRSP). Country authorities along with civil society and external development partners

prepare these papers, which outline a comprehensive economic, structural and social policy framework to be implemented to promote growth and reduce poverty in the country.

The World Bank

The World Bank (WB) is a specialised agency of the UN. This agency is made up of 188 member countries that hold joint responsibility for how the institution is financed and how its money is spent. The World Bank is headquartered in Washington D.C. and employs some 9,000 employees from nearly every country in the world who are stationed at headquarters or in one of its 124 country offices (World Bank, 2013).

Currently, the WB is focused on achieving the Millennium Development Goals set by the UN in 2000, which define specific targets in terms of school enrolments, child mortality, maternal health, disease, and access to water to be met by 2015.

There are different programs through which the World Bank operates. Referred to as the World Bank Group, these include:

- the International Development Association (IDA)
- the International Bank for Reconstruction and Development (IBRD)
- the International Finance Corporation (IFC)
- the Multilateral Investment Guarantee Agency (MIGA)
- the International Centre for Settlement of Investment Disputes (ICSID).

In addition, The Heavily Indebted Poor Countries (HIPC) Initiative focuses on the issue of debt relief for the 39 global south countries with especially high levels of debt and poverty.

The International Development Association (IDA)

Generally, the world's low-income countries cannot borrow money in international markets or can do so only at high interest rates. The IDA provides assistance to 81 of the world's poorest countries; half of these are in Africa. These countries receive grants, interest-free loans, and technical assistance from the World Bank to enable them to provide basic services. They also receive direct contributions and loans from global north countries. In the case of the loans, countries have 25 to 40 years to repay, with a 5 to 10-year grace period.

In the fiscal year 2011-12 IDA provided \$14.8 billion in financing for 160 projects in low-income countries (International Development Association, 2013). The IDA is the world's largest source of concessional assistance. A *concessional loan* refers to the provision of funds by a donor such that



the loan consists of a grant element of at least 25% (calculated using a discount rate of 10%) (OECD, 2000). A *non-concessional loan* is the provision of any other funds provided by a donor that must be repaid under agreed terms.

In general, loans will not include a 25% grant element if the term of the loan is less than ten years, unless the interest rate is well below 5% (OECD, 2000). Loans are considered for Official Development Assistance (ODA) if they meet the grant element requirement and have a main objective to promote economic development and welfare of a global south country.

About 40 of the world's richest countries provide money to the IDA by making contributions every four years. IDA credits make up about one-quarter of the Bank's financial assistance. Apart from IDA funds, very little of the Bank's income is provided by its member countries. In 2002, donors agreed on the increased use of IDA grants, up to 21 per cent of resources, to help address the special difficulties faced by the poorest and most vulnerable countries (e.g., those hardest hit by the HIV/AIDS epidemic).

The International Bank for Reconstruction and Development (IBRD)

While some middle-income countries may be able to procure loans from commercial sources, loans are usually only available at very high interest rates. Instead, these countries can receive loans from the IBRD at much lower rates, and with more generous terms. Structured like a cooperative, IBRD lends money to its 188 member countries with longer loan repayment periods than loans borrowed from a commercial bank. Usually, the loan is structured over 15 to 20 years, with a three-to-five-year grace period before the repayment of principal begins. Governments borrow money for specific programs, such as those that focus on poverty reduction efforts, the delivery of social services, protection of the environment, or any number of other programs that work to improve living standards.

The IBRD raises almost all its money in the world's financial markets—\$23 billion in fiscal 2002 (International Bank for Reconstruction and Development 2013). The IBRD uses its AAA credit rating to issue bonds to raise money, and then passes on the low interest rates to its borrowers. In the organisation's 2007 fiscal year, IBRD provided loans totalling \$12.8 billion in support of 112 projects (International Bank for Reconstruction and Development, 2013).

The International Finance Corporation (IFC)

The International Finance Corporation (IFC) was established in 1956. As of 2013, there are 184 member countries of the International Finance

Corporation. IFC member countries must be members of the World Bank and they must also have signed IFC's Articles of Agreement. As of 2013, IFC has approximately 3,700 employees, about 44% of whom work in its Washington, D.C., headquarters (International Finance Corporation, 2013). The remaining employees are stationed in over 80 IFC field offices.

The IFC seeks to promote sustainable private sector development through three main activities:

1. financing private sector projects located in the global south
2. assisting private companies in the global south to attain financing through international financial markets
3. providing advice and technical assistance to businesses and governments.

The IFC promotes private sector investment by supporting high-risk sectors and countries. It is the largest multilateral source of loan and equity financing for private sector projects in the global south. IFC investments typically range from US\$1 million to US\$100 million (International Finance Corporation, 2003). Funds are often used for permanent working capital and/or for foreign or local expenditures in any IBRD member country to acquire fixed assets.

Although IFC primarily finances private sector projects, it may also provide financing for a company with some government ownership. This is conditional upon private sector participation in the venture, and the venture being run on a commercial basis. IFC finances companies that are wholly locally owned, as well as joint ventures between foreign and local stockholders.

The IFC works on commercial terms with profitability targets and has been profitable since its inception. This is mainly due to the eligibility requirements for IFC financing. Projects must not only be profitable for investors and benefit the economy of the host country, but they must also conform to environmental and social guidelines. IFC finances projects in all kinds of industries and sectors, including manufacturing, infrastructure, and health and education.

Financial products and services offered by the IFC to companies in its developing member countries include but are not restricted to:

- long-term loans in major and local currencies, at fixed or variable rates
- equity investments



- quasi-equity instruments (e.g., subordinated loans, preferred stock, income notes, etc.)
- risk management tools (such as by acting as the intermediary for currency and interest rate swaps and the provision of hedging facilities)
- intermediary financing.

The IFC focuses on promoting economic development by encouraging the growth of productive enterprise and efficient capital markets in its member countries. As such, IFC works with governments and provides them advice on creating conditions that stimulate the economy, mainly through the flow of domestic and foreign private savings and investment.

Finally, the IFC will typically only participate in an investment when its contribution complements the role of market operators. Thus, a major role of the IFC is to stimulate and mobilise private investment in emerging economies by showing people that investments there can be profitable.

The Multilateral Investment Guarantee Agency (MIGA)

The Multilateral Investment Guarantee Agency (MIGA) was created in 1988 as a member of the World Bank Group. MIGA membership is open to all World Bank members. As of 2013, membership in MIGA stands at 179 countries (Multilateral Investment Guarantee Agency, 2013).

Perceptions about political uncertainty and risk often inhibit foreign direct investment (FDI), which the World Bank believes to be a key driver of growth. Usually, FDI goes only to a handful of countries, largely ignoring the world's poorest economies. The MIGA's task is to promote foreign direct investment into emerging economies with the goal of reducing poverty and improve the standard of living.

MIGA attempts to accomplish this task and contribute to development by offering political risk insurance, or "guarantees", to investors and lenders in global south. It also helps emerging economies attract and retain private investment through technical assistance and legal services.

MIGA focuses on four main principles:

1. serving investors, lenders, and host country governments by encouraging and supporting private enterprise and promoting foreign investment
2. engaging in partnerships with other insurers, government agencies, and international organisations for a complementary approach to the provision of services
3. promoting development consistent with the goals of host countries as well as sound business, environmental, and social

principles in order to improve the quality of life of people in emerging economies

4. ensuring financial soundness by “balancing developmental goals and financial objectives through prudent underwriting and sound risk management” (Multilateral Investment Guarantee Agency, 2003).

The International Centre for Settlement of Investment Disputes (ICSID)

The International Centre for Settlement of Investment Disputes (ICSID) was created in 1966 and like other World Bank Group units, is headquartered in Washington, D.C. Established under the Convention on the Settlement of Investment Disputes between States and Nationals of Other States, the purpose of ICSID is to settle investment disputes between foreign investors and their host countries, to help promote increased flows of international investment. As of January 2013, there were 158 signatory states to the ICSID, as well as 147 contracting states that have ratified the Convention. (International Centre for Settlement of Investment Disputes, 2013). All ICSID members are also members of the World Bank.

One of main activities of ICSID is to provide the institutional and procedural framework for the conciliation and arbitration of disputes between ICISD member countries and investors (both ICISD members and non-members). The acceptance and implementation of ICSID conciliation and arbitration rulings are entirely voluntary. However, once arbitration has been agreed to by the parties, neither one can unilaterally withdraw its consent to the process from occurring. Furthermore, all Contracting States (i.e., all members of the UN), whether or not they are parties to the dispute, are required by Convention to recognise and enforce ICSID arbitral awards.

The ICSID can also provide support in the field of settlement of disputes by accepting to act as the appointing authority of arbitrators for ad hoc (i.e., non-institutional) arbitration proceedings. Usually this is done within the framework of arrangements for arbitration under the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL), which are designed specially to deal with for ad hoc proceedings.

ICSID provisions on arbitration are often found in investment contracts between governments of member countries and investors from other member countries. Consent by governments to submit investment disputes to ICSID arbitration are also found in about 20 investment laws and in over 900 bilateral investment treaties (ICSID FAQ 2002). For example, consents to arbitration under the ICSID serves as one of the



main mechanisms for the settlement of investment disputes under four recent multilateral trade and investment treaties:

1. the North American Free Trade Agreement
2. the Energy Charter Treaty
3. the Cartagena Free Trade Agreement
4. the Colonia Investment Protocol of Mercosur (The World Bank Group, 2003).

Although the ICSID's headquarters are located in Washington, D.C., it is not necessary that all arbitrations occur there. The parties to an ICSID proceeding are free to agree to conduct their proceeding at any other place. However, where the ICSID has arrangements with specialised institutions for this purpose, arbitrations are to be held at these locations. As of June 2003, the ICSID has entered into such arrangements with the Permanent Court of Arbitration at The Hague, the Regional Arbitration Centres of the Asian-African Legal Consultative Committee at Cairo and Kuala Lumpur, the Australian Centre for International Commercial Arbitration at Melbourne, the Australian Commercial Disputes Centre at Sydney, the Singapore International Arbitration Centre and the GCC Commercial Arbitration Centre at Bahrain (The World Bank Group, 2002).

In addition to its dispute settlement activities, ICSID conducts advisory and research activities relevant to its objectives. It also issues a number of publications. The ICSID collaborates with other World Bank Group units in fulfilling requests by governments for advice on investment and arbitration law. The ICSID has also co-sponsored, with the American Arbitration Association (AAA) and the International Chamber of Commerce (ICC) International Court of Arbitration, symposiums on recent areas of interest in international arbitration.

The Heavily Indebted Poor Countries (HIPC) Initiative

Initiated in 1996 by the World Bank and IMF with agreement from governments around the world, the HIPC Initiative provides a comprehensive approach to reducing the external debt of the world's poorest, most heavily indebted countries. HIPC has also served to place the issue of debt relief within an overall framework of poverty reduction in the global south. According to the organisation's website HIPC was launched "with the aim of ensuring that no poor country faces a debt burden it cannot manage." (International Monetary Fund, 2013).

Countries that qualify for this initiative are the poorest countries, which include only those eligible for highly concessional assistance from the International Development Association (IDA), which is the World Bank organ that lends on highly concessional terms, and from the IMF's

Poverty Reduction and Growth Facility. Eligible HIPC's are required to undertake sustained implementation of integrated poverty reduction and economic reform programs, developed in conjunction with the World Bank and IMF.

In 2005, the Multilateral Debt Relief Initiative supplemented the HIPC; this more recent strategy allows for 100% relief of debt for those countries who have completed the HIPC process.

Countries that also face an unsustainable debt situation even after the full application of traditional debt relief mechanisms (such as application of Naples terms under the Paris Club agreement) may also qualify for assistance under the HIPC initiative. Currently, sustainable debt-to-export levels are defined at a fixed ratio of 150 per cent (on a net present value basis) (FAQ, The World Bank Group 2003). For more open economies where standard indicators may not adequately reflect financial burden of external debt, other methods of determining sustainable levels that calculate the Net Present Value (NPV) of exports to debt and GDP ratios are applied.

Bilateral and multilateral creditors participating in the HIPC initiative provide assistance required to reach debt sustainability. They share the costs of HIPC assistance on the basis equitable burden sharing. Creditors provide relief proportional to their share of the debt after the full application of traditional forms of debt relief, which include the Naples terms from Paris Club creditors that provide a 67 per cent NPV reduction on eligible debt.

The World Bank as an overarching entity contributes to HIPC goals predominantly through delivering relief on IDA debt. A portion of IDA debt will be forgiven as it comes due. IDA will forgive a minimum of 50% of the annual debt service due on existing IDA debt. The World Bank component of the HIPC Trust Fund will then reimburse IDA, subject to the availability of resources, for the debt service relief provided by IDA.

The Asian Development Bank (ADB)

The ADB was established in 1966 as a multilateral development finance institution with a mandate to reduce poverty in Asia and the Pacific. Currently, it is headquartered in Manila, with 31 field offices and 3,045 employees. As of 2013, membership includes 67 nations, both within and outside the Asian and Pacific region. The importance of this organisation is underscored by the fact that two-thirds of the world's poor live in Asia; ADB provided \$21.57 billion in assistance (Asian Development Bank, 2012).



ADB's key objective of reducing poverty comprises a three-pronged strategy of regional integration, inclusive economic growth, and environmental sustainability. The ADB has worked with the World Bank and other high-level representatives from around the world to discuss the new social policy agenda arising from the transition from central planning to market economies and globalisation in Southeast, Central, and East Asia. Topics covered include: labour market reform, decentralisation of social services, the role of the private sector in economic development and poverty reduction, urban poverty, and building social safety nets in these countries.

Another organ of the ADB is the Tokyo-based ADB Institute, established in 2000. It carries out development research and provides capacity building and training for middle- to top-level policy-makers and officials of development institutions from ADB's DMCs. The research agenda has focused particularly on the financial and foreign exchange markets, including specific topics such as assessing the relationship between financial market structure and development, strengthening banks and capital markets, sequencing financial market liberalisation, and reforming corporate governance in East Asia.

Non-governmental organisations (NGOs)

The term "non-governmental organisation," or NGO, emerged in 1945 due the need to differentiate between participation rights for intergovernmental specialised agencies and international private organisations in the UN Charter.

According to the original UN definition, almost all types of private bodies can be recognised as NGOs. The only requirements are that the organisation:

- be independent from government control
- not seek to challenge governments
- be non-profit-making
- be non-criminal.

The UN's notion of NGOs is applied in the general usage of the term. Nonetheless, some NGOs may push these boundaries. For example, an NGO may, in practice, be closely associated with a political party. Other NGOs may generate income from commercial activities, most commonly through consultancy contracts and the sales of publications. This has become increasingly common as governments cut funding to NGOs. Still others, albeit a small number of NGOs, may even be associated with violent political protests. In general, NGOs are organisations that do not constitute a government bureaucracy, a political party, a company or business enterprise, a criminal organisation or a guerrilla group. They are

independent, voluntary associations of people who come together for some common purpose on a continuous basis to achieve action besides these already mentioned restrictions.

Although technically the terms non-governmental organisation and a private voluntary organisation (PVO) appear equivalent, NGOs usually carry more neutral connotations and applicability to a broader range of actors in the political process, whereas PVOs are assumed to carry more moral connotations about groups and activities.

The definition of civil society organisations, or CSOs, as put forward by the United Nations refers to all social activity by individuals, groups and movements. Specifically, civil society refers to the space not occupied by either government or the market place. NGOs are components of civil society and types of CSOs.

As a total group, NGOs are very diverse. Correspondingly, their structures also vary considerably. They can be global hierarchies with bases in multiple countries, or they may be based in a single country and operate transnationally. The role of NGOs as participants in democratic debate does not require any claim to representative legitimacy.

Most commonly, NGOs are considered to be organisations delimited by national boundaries. Frequently, national NGOs team up with one or more international NGOs, which may also be referred to as INGOs. INGOs may consist of regional groups of countries, which are capped by a global body. However, it should be noted that NGO is an ambiguous term, and in practical use it may refer to local, provincial, national, regional or global bodies. Thus, it is not uncommon that an INGO be simply referred to as an NGO as well. Similarly, terms such as grass-roots organisations and community based organisations (CBOs), and even CSOs, which have traditionally been used to refer to organisations at the local and national levels, have become quite common in referring to global civil society. **Table 6** shows the evolution and usage of some terms associated with non-governmental organisations.

**Table 6: Changes in Terminology Covering NGOs**

Level of Organisation	From 1945 to Early 1990s	Early 1990s Onwards
Local	National NGO, at the UN Not discussed elsewhere	Grass-roots, community based or civil society organisation, or local NGO
Provincial (USA – state)	National NGO, at the UN Not discussed elsewhere	Civil society organisation or local NGO
National	National NGO, at the UN NGO, outside the UN	NGO or national NGO or civil society organisation
Regional	International NGO	NGO or civil society organisation
Global	International NGO	NGO or Major Group or civil society organisation

Source: Willetts, P. (2002).

Once NGOs decide to try influence public policy, they often organise in broad coalitions to achieve this purpose. In these coalitions, a large number of NGOs that do not necessarily share all common interests join together to exert influence on policy in a specific area. Coalitions may take the form of umbrella INGOs, networks or caucuses.

Umbrella organisations represent the presence of a variety of different NGOs that do not share a common identity under a single INGO umbrella. As transnational telephone exchanges and air travel became more common and cheaper, and as the use of satellite communications increased, these processes encouraged the formation of looser issue-based networks of NGOs to exchange information, mobilise support and coordinate strategies. Networks at this time still required some degree of formal organisation where network administrators were needed to manage the relationships and paperwork among the groups. However, with the advent of e-mail and social media, the costs of running a network were substantially reduced and a greater number of individuals and groups could afford to take part in instantaneous global communications. The number of networks increased dramatically and they no longer needed any formal structure. The importance of these networks in influencing government policy can be seen in global movements focused on transnational issues (such as a global climate change), or on geographically defined political issues (such as Iran's green movement). In the former, networks are used to mobilise a global public, in the latter, networks are used to circumvent the oppressive actions of a national government on its own people.

A variant of the global network is a global caucus. These arise when a group of NGOs come together as lobbyists at an international diplomatic event, such as a UN agenda-setting conference or a UN forum for negotiating on the formulation or implementation of a treaty. The caucus focuses on achieving specific outcomes from the diplomatic process. While individual caucuses may sit or exist for only a few weeks at a time just prior to UN meetings, a successful caucus will be able to carry forward procedural expertise, substantive knowledge, political status and diplomatic contacts gained in one forum through to the next forum, handling similar questions. As such, key organisations and key individuals can emerge to provide continuity. Two successful groups that operate in this way are women's organisations and environmentalists.

One set of global caucuses have emerged from the 1992 Earth Summit, where more than 100 heads of state met in Rio de Janeiro, Brazil to address urgent problems of environmental protection and socio-economic development. At the summit, Agenda 21 was adopted, which is a plan for achieving sustainable development in the 21st century. One aspect of Agenda 21 focused on "strengthening the role of major groups." This section advocated for broad public participation in decision making through improved communication with all levels of society, and mobilising particular sectors of society for the environment. According to Agenda 21, nine major groups or global caucuses were identified:

1. women—for action towards sustainable and equitable development
2. children and youth—in sustainable development
3. indigenous people and their communities—recognising and strengthening their role
4. non-governmental organisations—strengthening their role as partners for sustainable development
5. local authorities—supporting initiatives in support of Agenda 21
6. workers and their trade unions—strengthening their role
7. business and industry—strengthening their role
8. the scientific and technological community
9. farmers—strengthening their role.

To participate in either a caucus or network working within the UN system, all transnational actors have to take on the label of "NGO." Within the UN system, umbrella NGOs have consultative status (networks are usually listed) but caucuses rarely have any formal recognition. Coalitions that focus on policy outcomes will tend to take the form of an umbrella organisation. Coalitions that focus on issues tend to



take the form of a network or a caucus, with different members being active in different policy forums.

There are many NGOs, however, that prefer to work outside the UN system, focusing their efforts on changing public opinion as opposed to trying to change public policy. For these groups who are part of the so-called new social movements, UN institutions are based on neoliberal ideas that they cannot accept. Specifically, these groups argue that the current institutional system which promotes market solutions to problems of poverty is systematically biased against poor countries in the global south (who are enslaved by debt and unfavourable trade regimes), women (whose work within the home is not recognised and who disproportionately carry the burden imposed by structural adjustment policies), and the poor (who are becoming even poorer in both the global north and the global south due to policies that are concentrating wealth in the hands of the rich).

So for example, with respect to women's issues, these critics charge that the already oppressive tendencies of the multilateral economic institutions are exacerbated by the tendency to give only half-hearted effort to address egregious inequity (such as tacit approval of violence against women) out of respect for the cultural values of global south countries. Moreover, the policy discourse within the multilateral economic institutions focuses on the macro-economic level, whereas feminist economic analysis focuses at decisions made at the micro level, specifically, between men and women in the household. Because one analysis focused on market efficiency and deregulation to promote individual freedom, while the other focuses on gender justice to promote individual freedom, new social activists in the women's movement see little point in engaging in processes based on what they see as false premises. The sense that there are two parallel conversations going on explains why new social movement activists in other sectors (such as the Occupy Movement) have no interest in participating in multilateral institutional engagement exercises.

Aid coordination for global south countries

In this section we will examine ways for governments and external support agencies, such as the UNDP, to help the move towards national ownership of effective aid coordination and management.

Aid coordination refers to the planning and procurement by a recipient government of aid from its donor partners and its integration into national development goals and strategies.

Aid management refers to the effective implementation of development programs that are supported by aid.

Priorities for aid organisations

It is a well-established fact that the highly dispersed and uncoordinated nature of current development cooperation is detrimental to all levels of development promotion: sustainable human development, macro-economic growth and restructuring, national capacity building, community empowerment, etc.

There is general consensus on the need for change in aid coordination and aid management. Research shows that the current situation with respect to aid in most emerging economies is ineffective, wasteful and a considerable burden on the weak national capacity especially in low-income countries. Both recipient governments and donors are responsible for the current state of affairs since:

- Governments seldom provide a clearly prioritised and transparent national development vision and framework for the formulation and implementation of donor-supported programs and projects.
- Donors pursue their own political or commercial interests and insist on donor-specific programs and projects that each has their own management procedures for all phases of the project cycle.

The challenge to remedy this situation is faced by all external support agencies: multilateral and bilateral agencies, NGOs, donors and executing agencies.

Priorities in aid coordination and management

The UNDP divides aid coordination and management into four levels that are useful for us to review. These are:

1. **Visions and priorities on national societal development:** This level covers the structure of society and long-term development dialogues concerning, e.g., poverty alleviation, sustainable human development, national governance and popular participation. The aid coordination issues concern the profile of aid commitments and the contents of related development dialogues.
2. **Macro-economic policies:** These comprise economic and financial policies, including monetary and fiscal stabilities. The aid coordination issues are related to the overall size of aid commitments in the form of grants, credits and loans, as well as the achievement of agreed aid targets.
3. **Program formulation:** At this level, aid coordination and management deals with the formulation of the donors' country, sector or area programs and projects. The underlying aid



coordination issue concerns the substantive integration of aid into national priorities and programs.

4. **Program implementation:** Aid coordination and management aims at harmonisation of aid and budget cycles, minimisation of the administrative burden on donors and recipients, and institutional and financial sustainability. It concerns the procedural integration of aid into national institutions.

According to UNDP research, at present, the second level has the best functioning aid coordination mechanisms in the form of the Consultative Group process. However, even this mechanism is weak at the country level, and there is little national ownership of the process. At the other levels, there are few effective mechanisms: Aid coordination and management is determined predominantly through bilateral relations between donor and recipient and through information exchange within sub-groups of donors.

National vision and priorities

There are few permanent mechanisms available for a dialogue on visions and priorities on national development. The governments of most emerging economies lack such mechanisms both in both their own civil societies and in relation to external support agencies and donor governments. Often, the establishment of national priorities takes place implicitly in ad hoc government decisions, through clandestine political processes, and in the uncontrolled operation of market forces.

Within the UN, there have been numerous attempts to force all UN bodies to relate to the declarations and programs of action of global UN conferences as well as the resolutions of the UN General Assembly and its subsidiary bodies. In general, however, these have been formulated too broadly to ensure coordinated approaches.

It is mainly through very general policy dialogues between donor and recipient and with (some) project assistance, aimed at a dialogue with national and local partners, that external support agencies explicitly address national visions and priorities. As a rule, these efforts are bilateral: The government is forced to engage in such dialogues with each of 15 to 30 external support agencies, which is likely to increase rather than reduce the problems of national governance.

Through the country-specific National Technical Cooperation Assessment and Programming (NaTCAP) exercise, UNDP has attempted to build capacity in government to make optimum use of all technical cooperation. The exercise has, however, often been more input- than programming-oriented.

Macroeconomic policy

The weakness of existing mechanisms at the first level, i.e., that of national visions and priorities, is compounded by the relative strength of the mechanisms at the second level, especially the World Bank-led consultative group-mechanism. This led in the 1980s to peculiar discrepancies between:

1. acceptance by the international community that the governments of global south countries in the political field pursue their own policies of governance, which may or may not have been in accordance with their international commitments on individual and collective human rights, participation, etc., and
2. strong and coordinated 'intervention' by the international community in the national sovereignty of debt-ridden countries in the economic field through stabilisation packages and structural adjustment programs.

The emphasis on sustainable human development and good governance in the first half of the 1990s reflects a necessary attempt to close this discrepancy. There is hope that the rigid economic standard prescriptions are being softened through the increased attention to sustainability and human development, and that the 'laissez-faire'-attitude in the political field is being replaced by adherence to international norms on issues of governance.

The problem remains, however, that there are no permanent aid coordination institutions to carry such an integrated dialogue on economic and political issues. The Consultative Group process could become such a platform, but there is in the Bretton Woods institutions and in large Western countries a concern that a broadening of the agenda might jeopardise the two commitments of the Consultative Group process: the commitment by the government to implement agreed economic and financial policies; and the commitment by the donors to meet the external financing targets.

The UNDP suggest that an approach with the following characteristics is most likely to be successful in this regard:

- More emphasis on country level aid coordination, to precede and follow-up on the international meeting in Paris or elsewhere;
- Leadership and ownership of the process by the recipient government;
- Inclusion of policy dialogues concerning long-term economic and social development issues;
- A starting-point in national visions, priorities, plans and programs as the framework for aid coordination;



- A commitment by all donor agencies (bilateral as well as multilateral) to contribute and adhere to the results of the aid coordination process; and
- Involvement of both the World Bank and UNDP in support of the government's preparation and management of the process.

Key national and international actors

The key parties or actors involved in the aid coordination and management processes at country level are government institutions, bilateral and multilateral donor agencies, and non-governmental organisations. The latter have become increasingly important in development and emergency aid. As such, bilateral and multilateral donors are increasingly by-passing governments and providing funds directly to NGOs. Thus the already blurred demarcation between responsibilities and roles among government departments and donors with respect to administering aid is becoming even fuzzier. Moreover, the goals of long-term national development and short-term economic adjustment often clash, leading to power struggles between actors.

Effective aid coordination and management

National policy and planning framework

There are a number of common features in the national policy and planning framework for aid coordination and management in many emerging economies. These may be summarised as follows:

- National sovereignty
- Institutional framework
- National plans as starting points.

National sovereignty

The governments of the global south have the right, under international law, to determine the terms of their involvement in international development cooperation, including the use of foreign assistance. Despite the increasing emphasis on open market economies, political liberalism and institutional pluralism, the core ministries (Finance, Planning, etc.) of central governments are the primary partners for all bilateral and multilateral donor agencies. There are, however, at least two significant challenges to this constitutional feature of international development cooperation:

1. Donors demand the right to enter into policy dialogues with recipient governments on the use of their aid. When such dialogues are linked to international agreements (e.g. on human

rights), the donor demand is in full compliance with international law. When the demand for dialogue reflects 'the power of the purse', as in the case of dialogues on economic adjustment, the invasion of national sovereignty is more direct.

2. Donors increasingly seek to provide funds directly to NGOs and other institutions of civil society. This must, however, be formally accepted by the national government, with whom the donors have basic agreements of cooperation. There is often a 'tug of war' between donor and recipient governments on the form and degree of recipient government involvement in priority-setting and monitoring of donor support to national and local NGOs. This is likely to become an increasingly important issue for aid coordination and management.

Institutional framework

The institutional framework for aid coordination and management at the country level is quite consistent among global south countries. The typical set-up at country level has five components:

1. The diversified donor community combines some agencies with a strong presence and decision-making authority and other agencies whose decision-making is centralised to their headquarters in the multilateral organisation (as with the development banks) or the bilateral donor country. It includes funding and executing agencies as well as agencies offering either capital or technical cooperation. Finally, it comprises a host of international NGOs that may or may not have permanent links with national NGOs.
2. The core ministries establish the formal framework for aid coordination and management within the national structures of public sector management and governance. They include at least the following core institutions:
 - The Ministry of Finance (MOF) has divisions for international resource mobilisation and aid coordination; national resource mobilisation and budgeting; national accounting; and development budgeting (e.g. a public sector investment division). The Ministry usually has desks that are responsible for individual or a group of donor agencies, such as the UN agencies or the Nordic countries.
 - The Ministry of Planning has divisions for public sector investment planning and budgeting (unless this is in MOF); sector programming and monitoring; and medium- and long-term planning. The Ministry is often a Planning Commission with an independent secretariat.
 - Other core ministries and institutions include the Office of the Prime Minister or President; State Auditors; and



the National Bank. These core institutions may include sections or units for economic adjustment, public sector reform, etc.

3. The line ministries and specialised sector institutions implement the bulk of the national development and relief programs that are aid financed. Despite the feeling of 'constant reorganisation' in recipient governments, the basic structure of the government's implementing institutions remains the same:
 - All governments have line ministries for infrastructure (transport, works); social services (health, education); economic production (agriculture, industry); governance (justice, local government); and culture.
 - Almost all countries have at least three layers of government; central, regional/provincial, and district. The latter may be local administrations or independent local authorities.
4. The public and semi-public enterprises are the most volatile component of the institutional framework at country level. During the 1950s-1970s, they were the favoured partners of development banks and other donors in the drive towards economic vitalisation, since they appeared to be modern institutions for investments in infrastructure and production. In the 1980s-1990s, they have been the primary target of privatisation and commercialisation drives - with the same international partners.
5. The local NGOs and other institutions of civil society have over the past decade become the new favoured partners of international donors. They include sector-specific development agencies; interest groups; the media and cultural institutions; community organisations and target group institutions. Local authorities could be considered institutions of civil society, but their independence is so limited in most global south countries that they must be considered part of government.

National plans as the starting-point

The recipient government's annual, medium- and long- term development plans and programs are formally taken as the starting-point and reference framework for the formulation of development cooperation programs. Many governments of global south countries demand that aid programs and projects are included in the government's public investment program (PIP) and development budget. This legal requirement is often bypassed, however, through the inclusion of 'token investments' in the PIP and budget.

The link between the government's annual planning, budgeting and review process and the aid coordination process is typically meant to go through the following stages:

1. At the beginning of each year, government departments and institutions examine their requirements for capital and recurrent expenditures and submit to their respective line ministries the proposals for the ensuing budget year. In reality, the examination is based mainly on the previous year's budget and general policies on restructuring of the public sector and public finance. Specific proposals prepared by or in conjunction with donor agencies may be considered at this stage.
2. The various proposals are appraised by the line ministries in relation to the PIP. In many countries, each line ministry has a planning unit with a representative from the Ministry of Planning. Feasibility studies may be carried out at this stage. Line ministries present proposals accepted for inclusion in the annual budget to the Ministry of Finance and/or Planning, where broad priorities are assigned to the various projects based on national priorities and sectoral limits set out in the PIP.
3. A Public Sector Expenditure Division, which is located in either Finance or Planning, subsequently studies the proposals. Discussions involving both core ministries and the relevant line ministries often take place at this stage before the plans and budgets are submitted to higher-level, administrative decision-making bodies in government, such as a Committee of Secretaries.
4. Proposals and budgets approved by such a body are finally considered by the Cabinet and - upon its approval - included in the Annual Budget. The requirements for external funding are spelled out and forwarded to an External Resources Division of the Ministry of Finance where - in principle - it is decided which donor agency to approach for funding.

Prerequisites for improved aid coordination and management

The need for a clear policy framework and a long-term vision

The 1990s saw an emerging consensus on the limits of the macro-economic focus of structural adjustment and economic reform programs for emerging countries. It was recognised that the traditional national five-year-plans are not a sufficient starting-point for aid coordination based on strategic dialogue between government and donors. In brief, the following components are needed for improved aid coordination and management:



- A vision of the socio-economic and political fabric and of people's future living conditions and opportunities in the country
- Clear policies on the role of different societal actors in achieving the vision: the state, the bureaucracy, civil society, the private sector, social groups, households, men and women, and different donor groups. This issue concerns national governance in the sense of ensuring the widest possible participation in societal decision-making.
- A set of regulations (e.g. on human rights), promotional interventions and service delivery policies and incentives is needed to ensure that society moves towards implementing the vision.
- Overall priorities on the use of government resources shall aim to move in the direction of the vision, including setting priorities among sectors.

In many global south countries UNDP is supporting long term perspective studies that point in this direction, although sometimes with a very limited time perspective.

Substantive policies and medium-term strategies, plans and budgets

In most global south countries there is a need to combine the following:

- The sector-specific policies and strategies of implementing institutions, particularly line ministries; and
- An expanded Public Investment Program (PIP), which includes budget estimates related to the substance of sector programs, and which is based on program performance budgeting systems.

Such a mechanism could take the form of a 3-5 years rolling development program with budget estimates (investment and recurrent) tied to sector strategies, programs and projects. Without this, the actors outside the implementing institutions cannot easily define their own roles and contributions. This includes both core ministries, who need such mechanisms for performance monitoring, and donor agencies, which need such mechanisms as a starting-point and reference framework for the formulation of their aid to the country.

Capacity requirements in core and implementing institutions

Demands on government institutions are comprehensive. The key requirements are:

- A change in organisational culture in the state, aimed at development promotion and facilitation rather than regulation and control;
- Capacity for long-term policy-making and planning in the core Planning Department;
- Clarification of the respective roles of the Ministries of Finance and Planning;
- Introduction of program performance budgeting and reporting systems;
- Willingness in government to enter into a dialogue with its national and international partners on substantive policies and strategies;
- The presence of planners with sector-specific experience in core ministries and/or in implementing institutions, possibly on secondment from the former to the latter; and
- Reorganisation of implementing institutions around policies and programs instead of around supply structures and projects.

There is clearly a need for comprehensive public sector reform. However, it is possible to move gradually and to start with:

- The formulation of substantive medium-term policies, strategies and programs;
- The reorganisation of specific implementing institutions; and/or
- The introduction of improved planning and monitoring systems in both core and line departments.

Governance as a common framework

The concept of 'good governance' has still not been given an authoritative definition by the international community. Good or sound governance is used here to emphasise that in an aid coordination and management context, the demand must go both ways, i.e. also as a demand on donors to reduce administrative complexities, increase transparency and contribute to honest policy dialogues between equal partners. Governance requirements cover at least three aspects:

1. Effective, accountable and transparent public administration;
2. Rule of law, guaranteed rights of individuals, and improved public security;
3. Democratisation and people's participation in economic and social development processes.



Existing management mechanisms and issues

Table 7 presents the key institutional mechanisms that are available for country-specific aid coordination and management in relation to the four levels outlined earlier. The table excludes the international fora, such as OECD's Development Assistance Committee and various UN committees, to harmonise the procedures of donors before these enter into country-specific development cooperation with the global south.

Table 7: Existing Aid Coordination and Management Mechanisms at Country Level

Aid coordination and management issues	Existing aid coordination mechanisms	Existing aid management mechanisms
1. Visions and priorities on national societal development	Few mechanisms. Some UN coordination. Mainly internal government discussions	Some project-specific, bilateral dialogues, and some capacity building assistance
2. Macro-economic and financial policies	The Consultative Group process and the meetings in Paris	Mainly program- and project-specific dialogues
3. Formulation of national and local development programs	Mainly bilateral negotiations. Some information exchange and thematic donor groups	Bilateral negotiations between government and individual donors. Some project co-financing
4. Program delivery and implementation	Some ad hoc, joint program and project reviews	Bilateral negotiations, and co-financed projects and programs

Source: "About UNDP" (2003). United Nations Development Program.
http://www.undp.org/about_undp/

Internal and external issues

Traditionally, a distinction has been made between internal and external issues of aid coordination and management. This may not be appropriate in view of the above definition of aid coordination and management as a question of the integration of internal and external resources. Furthermore, both aid coordination and aid management are the prerogative of national institutions, in particular government.

External support for national development of aid coordination

Government ownership of the substance and process of development cooperation is the basic objective of improvements in aid coordination and management at country level. This significantly increased demands on the external support agencies that are now required to:

- Support the integration of their aid programs into the recipient's institutions and procedures;
- Adhere to national priorities, as reflected e.g. in a medium-term national development program and relevant sector policies; and
- Minimise their insistence on donor- and project-specific planning, implementation and review procedures.

As such, greater discipline is required of the donor agency. The most significant demand concerns the un-tying of aid from the procurement of goods and services in the donor country. As a general rule, the tying of aid has negative consequences for aid coordination and management by the recipient due to the following:

- Aid coordination is hampered because all forms of tying reduce the flexibility that recipient government institutions need to plan the use of aid in the most effective manner.
- Aid management is less cost-effective because tied procurement necessarily implies delays in the release of aid, limited competition and a real risk of more expensive inputs of goods and services.

Bilateral dialogues between government and donor on the country programs of individual donors are the most important mechanism to ensure integration of aid, adherence to national priorities and minimisation of donor-specific procedures.

Only a strong external resources division in the Ministry of Finance or Planning can 'force' individual donor agencies into greater compliance with the procedural requirements of an effective aid coordination and aid management regime. With respect to the substantive integration of aid into national development priorities, the key actors on the government side are the central planning department and strong line departments that can challenge donors in a dialogue on sector policies and strategies.

In OECD's Development Assistance Committee (DAC), the bilateral and large multilateral donors have their own platform to discuss and agree on enhanced donor discipline. The perseverance of tied aid practices and donor-specific procedures demonstrates that this international mechanism



is insufficient for improved aid coordination and management at country level.

The greatest weakness in the present situation is the absence of fora at the country level for a dialogue between government and all its significant external partners concerning procedural and substantive integration of aid into national institutions, priorities and procedures.

When the governments of global south countries have: 1) strong core departments in the Ministries of Finance and Planning; 2) a medium-term national development program; as well as 3) strong line departments that can lead the necessary sector policy dialogues, only then will it be possible for these governments to establish such aid coordination fora at country level.

However, the governments of many LDCs still lack these capacities. In these countries, donor agencies, such as UNDP, must be prepared to undertake two tasks:

- Donors must provide, and use, a number of aid coordination services together with the national government; and
- Donors must provide technical cooperation to build national capacity for aid coordination and aid management.

The demands on donor performance at country level can be summarised as follows:

- Acknowledgement of and respect for the government's long-term vision. This is made difficult by the fact that governments are likely to change, and that some governments do not live up to international agreements on human rights etc. The solution is for both government and donors to operate within a framework of good and sound governance;
- Respect for the government's (and local authorities') substantive medium-term policies as the starting-point for dialogue and formulation of aid programs. For many donors, this would be a major change vis-a-vis present approaches;
- Transparency in the objectives, priorities and procedures of the donor's aid programs and management cycles;
- Maximum adherence to program performance budgets adopted by the government, including substantive and procedural integration of aid into national institutions and procedures;

- Minimisation of donor-specificity in project cycle procedures, moving towards standardisation, simplification and harmonisation;
- Willingness and capacity to offer capacity building assistance that enables implementing institutions to prepare policies, strategies and programs; and
- Capacity to participate in dialogues on substantive policies and strategies. This may require different staff at in-country donor missions.

Improved aid coordination

The UNDP identifies four types of aid coordination services that are needed by both the recipient government and the donor agencies operating in the country. The four types are:

1. Providing a forum for dialogue between government and donors;
2. Collecting, processing and disseminating information on actual and planned development cooperation in the country;
3. Coordination within specific sub-groups of external support agencies; and
4. Resource mobilisation and fund-raising.

Each of these will now be discussed.

Forum for dialogue

Providing a forum for dialogue between government and donors includes the consultative group and round table processes, as well as the provision of a platform in the ongoing interaction between the two parties at country level. Such a forum is often absent and critically needed in most global south countries in relation to the 1st and 3rd levels of aid coordination, i.e., the dialogue on visions and priorities for national societal development; and the formulation of aid programs of individual donors.

Facilitation of such interaction is needed for this aid coordination service to be effective. The use of a forum requires an effort by either a government or a donor agency. This is where UNDP can play a significant role due to its permanent presence in all global south countries and its command of untied technical cooperation resources that may be needed to support such efforts.

Information needs

This involves collecting, processing and disseminating information on actual and planned development cooperation in the country. Aid coordination services aimed at improved sharing of information and



analysis are needed for all four levels of aid coordination and management. They are particularly critical with respect to aid program formulation and aid delivery and implementation.

Until a government itself can provide this aid coordination service, it is an appropriate task for a multilateral donor agency with a presence at national level in the form of a well-staffed field office. However, the experience with the preparation of the annual Development Cooperation Report shows that only the UNDP can provide this service if both the large donors (e.g. the World Bank), and government are committed to 'forcing' other donors into providing the required information. The other precondition is that this service is recognised as cost-effective and essential for development cooperation.

In an increasing number of emerging economies, this aid coordination service can and must be taken over by core departments in the recipient government, primarily in the Ministry of Finance. In this case, the donor's role should be changed into the provision of technical cooperation to build capacity in core departments. The improvements made to the UNDP's Development Cooperation Analysis System (DCAS) provides a good example for commencing the transfer of ownership and the further integration of the information processing service into government procedures.

Coordination

Governments of emerging economies generally resent 'donor coordination'. They see it as 'donor ganging up' and as an erosion of the principle of aid coordination as the government's prerogative. On the other hand, many government officials appreciate it when donors 'get their act together', so that the pressure on government is minimised. At present, the key people in government spend unacceptable amounts of time explaining the same policies and priorities to the host of donor-specific missions that all insist on visiting the top people in government.

Resource mobilisation

Resource mobilisation and fund-raising is an aid coordination service, which obviously is the government prerogative. However, many UN agencies, including UNDP, face a serious reduction in general donor funds. For them, fund-raising for country-level development programs on behalf of government is seen as a road to their own survival. In Latin America, UNDP has had some success with a role as a channel for donor funds to national programs.

At the macro-level, the consultative group process is the main mechanism for coordinated resource mobilisation. There is a need to supplement the Paris structures with mechanisms at national level, which would mobilise resources for specific elements of the above-discussed medium-term,

rolling national development programs. However, this process should be owned fully by government, in particular the Ministries of Finance and Planning.

All of these aid coordination services may involve NGOs as well. This enhances the task and may place a heavy burden on donor human and financial resources.

Institutional reforms in government

The UNDP advises that relations between the various divisions of the Ministries of Finance and Planning must be built around four key principles:

1. The primary role of the Ministry of Finance in dealing with international partners for budgeting and accounting of foreign aid;
2. Equal capacity in Finance and Planning in terms of professional human resources; this will often require strengthening in both institutions, but especially in the Planning Department;
3. Close cooperation in a fully integrated effort to prepare a medium-term national development program, which includes sector strategies, investment ceilings, program and project priorities, and recurrent budget estimates; and
4. Stronger involvement of the Planning Department in programming dialogues with individual donors, particularly at sector level.

To fill the gap between annual budgets and the still existing five-year national development plans, governments need to prepare a rolling 3-5 years national development program, which is enhanced by tools such as the UNDP's Public Investment Program. It should be used for aid coordination and management at five levels:

1. As the foundation for a Consultative Group / Round Table process at national level, involving core and line departments, national institutions of civil society, and the donor community. The aim should be to ensure that the overall government-donor interaction addresses visions and priorities on national societal development in addition to the macro-economic balances and structural adjustment issues of the present Consultative Group process.
2. As the government's key input into the Consultative Group or Round Table processes in their current designs at international and/or national levels.



3. As the starting-point for government and donors in annual aid programming, during which the individual donors' country programs are agreed upon.
4. As the starting point and reference framework for all parties involved in policy and strategy dialogues at sectoral and sub-national levels.
5. As the framework for program performance planning, budgeting and reporting, which should also be the starting-point for aid monitoring and evaluation.

The UNDP advises that greater emphasis and commitment be given to the sector policy, strategy and programming dialogues as an aid coordination and management mechanism. This requires a strong planning input and program coordination by the Ministry of Planning. In support of these reforms, there is need for basic capacity building in the core government departments, comprising much improved information processing capabilities in all divisions of the Ministries of Finance and Planning, including the Division of the Accountant-General.

In relation to countries in transition, UNDP has given top priority to the provision of technical cooperation for improved external resources management. It argues that a special institutional mechanism is required for the governments of East Europe and the former Soviet Union to improve their external resources management.

Technical cooperation in aid management

As we have just discussed, there are four levels of aid coordination and management and two key mechanisms to ensure coherence between these levels of aid management.

As the overriding aim of aid coordination and aid management is to integrate aid into national priorities, institutions and procedures, there is a need to strengthen the capacity in government institutions at all four levels. The contribution by donors (such as UNDP) could be of three major types:

1. Capacity building for aid coordination and management;
2. Direct aid coordination; and
3. Public sector management and development.

Capacity building for aid coordination and management

Significant programs, such as UNDP's NaTCAP and the UNDP / World Bank Africa Capacity Building Initiative (ACBI), are examples of donor support to capacity building at the top levels of aid coordination and management. Even in relatively strong countries the need and scope for

further capacity building assistance is considerable also at two more concrete levels:

- The detailed planning, budgeting, monitoring and accounting of foreign aid in various sections of the Ministry of Finance; and
- The programming and monitoring of multi-donor support to programs implemented through line ministries.

Direct aid coordination

This type of technical cooperation is different from the capacity building assistance in that the donor and/or technical adviser becomes directly involved in managing foreign aid on behalf of the government. This is acceptable in the short term, if it reduces the burden being put on government and hence releases government capabilities for development promotion and aid coordination and management.

However, if it takes the form of donor representatives drafting 'bankable' projects and programs on behalf of government institutions and subsequently securing donor funds, then it is counterproductive from the point of view of transferring ownership for aid coordination to national institutions. In this case, it becomes an 'external' aid coordination service, which the government should aim to take over.

Public sector management and development

Technical cooperation for public sector reform and institutional development in general lies on the borderline between capacity building for aid management and viewing the public sector as one among several possible target sectors for development cooperation.

An example of capacity building in action is the Government of Sri Lanka's request for the UNDP to assist in enhancing the overall functioning of the External Resources Department (ERD) through:

1. Development of a coherent framework for external assistance;
2. Improved organisation and more efficient operation of ERD as a result of new capacity in areas of policy, information and coordination. Better direction of ERD activities and use of new staff skills and modern technology;
3. Improved management of external resources by ERD for the realisation of the Public Investment Program in accordance with intersectoral priorities;
4. Adoption of more rational and consistent policies which would assist programming of aid in combination with domestic resources for securing the best results;



5. Closer liaison with the Ministry of Policy Planning and Implementation and line departments to deal with the overhang of undisbursed aid;
6. Appraisal of technical assistance leading to development of Government policy (based on analysis of requirements and past performance) towards technical assistance; and
7. Better and faster response to donor initiatives.

UNDP has assisted this upgrading of the ERD through the services of foreign consultants in Management Information Systems, Systems Analysis, Policy Analysis, and through the supply of computer software and hardware.

Furthermore, in Sri Lanka, UNDP provided direct aid coordination by assisting the government with coordination of donor programs and projects through a technical cooperation project for Southern Area Planning. UNDP has provided expertise to the Southern Area Development Unit of the Ministry of Planning, aimed at developing a mechanism to coordinate and monitor the lead projects that are operational in the South.

Finally, the UNDP is also involved in strengthening the aid management systems of the government as components of public sector reforms. The government of Sri Lanka established a Restructuring Management Unit that is supported by the UNDP project. This unit is responsible for monitoring the completion of the restructuring program, to ensure that government policies regarding restructuring are implemented. UNDP has financed a national and an international Program Director and a number of consultants in various fields of specialisation.

Aid coordination and capacity building

Another approach that provides a link between aid coordination and capacity building was included in the 1991 Evaluation Report on UNDP's Role in Capacity Building for the Management of Development Resources in the LDCs. The report states that "the effective coordination of external assistance and its integration with domestic resources requires capacities at the various levels of the development process. These extend from the macro-policy making of central ministries to the planning and implementing actions of local communities."

For each level, the framework looks into the appropriate aid coordination activity and the capacity building requirements. The five levels are:

1. Economic and social policy;
2. Sector program policies and strategies;
3. Program implementation;

4. Management information systems; and
5. External assistance management.

These five levels are not quite identical to the four levels of aid coordination discussed earlier, but the approach of first identifying aid coordination activities and then specifying capacity building requirements is in-line with the methodology outlined in the previously.

Module summary



Summary

In this final module we continued the discussion of financial administration in global south countries. This involved considering issues in aid coordination and management, both from the perspective of the donors and the funding recipients, which is often the government of an emerging economy.

We looked at a number of multilateral donor agencies and their mandates to promote economic and social goals. These include the United Nations, the International Monetary Fund, the World Bank, the Asian Development Bank, and Non-Governmental Organisations.

The module also explored the range of options available to governments and external support agencies, such as multilateral donors, for helping governments to whom they provide assistance move towards national ownership of aid coordination and aid management. We saw that there is a need for aid coordination and management to include plans for eventual self-sufficiency in both management of financial resources and institutional capacity. Based on the experiences of the UNDP, it is advised that this include setting out national visions and priorities within a national policy and planning framework with includes short-term, medium-term, and long-term goals.

Assessment



Assessment

Answer the following questions with reference to both the larger global context, as well as your local context. Ensure that you provide examples to illustrate your points.

1. Explain how the IMF's revenue dependence on quotas recognises but also reinforces differences in fiscal capacity and power among nations.
2. The IMF employs three main functions in accomplishing its object of promoting the health of the world economy. Explain how the surveillance role is seen by some as a positive way to ensure the health of the component parts of the global system, while others would see it as a form of disciplinary power. Use examples to illustrate your points.
3. Describe the difference between concessional and non-concessional loans. Identify an example of each.
4. Compare and contrast the different programs that belong to the World Bank Group with respect to their utility toward poor and middle-income global south countries.
5. Explain the difference between NGOs with respect to their willingness to work with and in parallel to World Bank institutions. Why do some prefer to work outside the system?
6. Discuss why there is a need for change in aid coordination and aid management, and why both recipient governments and donors share the blame for dysfunctions in the system. What elements contribute to system weakness in your region?
7. Outline the common features in the national policy and planning framework for aid coordination and management. Which in your opinion is the most important in your country?
8. The UNDP identifies four types of aid coordination services that are needed by both recipient governments and donor agencies. List these and describe which are the most useful in your region in addressing local problems.

Assignment 2



Assignment

(20% weighting)

Instruction for the Students:

Step 1: Read the following article from the journal *International Journal of Emerging Technologies and Society*:

Nugroho, Yanuar. (2008). Adopting Technology, Transforming Society: The Internet and the Reshaping of Civil Society Activism in Indonesia. *International Journal of Emerging Technologies and Society*, 6(2), 77-105.

Step 2: Analyse the article and write an essay that includes **at least one** of the following four elements:

1. The course manual identifies both the rise of non-governmental organisations (or using Nugroho's terms), civil society organisations (CSO) and the increasing use of internet technologies (ITS) as features of the shift from "government" to "governance." Analyse this article in light of this shift.
2. What is the impact of CSOs and ITS on citizen engagement in Indonesia? Compare this impact to a state/region that you are familiar with.
3. CSOs are often engaged in advocacy and cyberactivism; ITS can be a powerful tool. Discuss how advocacy and activism can help address issues, and discuss the problems that this type of advocacy can create.
4. Discuss how this changing environment will impact how public servants go about their work, noting both the opportunities and challenges. What impact might CSOs have on legislative development activities?

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