

**AT THE TABLE OR IN THE KITCHEN?
CIDA'S NEW AID STRATEGIES, DEVELOPING COUNTRY OWNERSHIP
AND DONOR CONDITIONALITY**

**CANADIAN COUNCIL FOR INTERNATIONAL CO-OPERATION
HALIFAX INITIATIVE
BRIEFING PAPER**

SUMMARY

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AT THE TABLE OR IN THE KITCHEN? CIDA'S NEW AID STRATEGIES, DEVELOPING COUNTRY OWNERSHIP AND DONOR CONDITIONALITY¹

Program Based Approaches are providing donors such as CIDA with a seat at the policy dialogue table, but the "policy cooks" in the kitchen, the World Bank and the IMF, remain the same.

SUMMARY

1.0 INTRODUCTION

In September 2002, CIDA published an overarching strategic statement on aid policy, *Canada making a difference in the world, a policy statement on strengthening aid effectiveness*. Among other aspects, this new policy directed CIDA to commit its aid resources to development programming planned and owned by recipient country partners, to improve its focus on poverty reduction and the Millennium Development Goals. CIDA was not alone in looking more critically at its aid practices and strengthening its focus on reducing poverty. All donors have increasingly relied on Poverty Reduction Strategy Papers (PRSPs) as the roadmap for achieving the MDGs. Since 1999 the International Financial Institutions have required the poorest developing countries to develop PRSPs as a condition for debt relief. CIDA joined other major donors in its September 2002 aid policy to increase its use of program based approaches (PBAs) as a key instrument in contributing to implementing PRSPs and advancing the MDGs in the poorest countries.

For donors, program based approaches aim to address critical weaknesses of traditional donor projects that had been widely criticized as narrow, donor managed initiatives with little sustained impact beyond the project's "island of excellence". CIDA defines a PBA as

"a way of engaging in development cooperation based on the principle of coordinated support for a locally owned program of development. The approach includes four key elements: leadership by the host country or organizations; a single program and budget framework, donor coordination and harmonization of procedures, efforts to increase the use of local procedures over time with regard to program design and implementation, financial management, and monitoring and evaluation."²

This briefing paper seeks to understand the implications of these three converging elements in CIDA's implementation of its 2002 policy – the Agency's reliance on PRSPs to define country priorities for poverty reduction, its support for program based approaches to deliver increasing aid budgets for poverty reduction, and its increased coordination with the World Bank and other major donors in these PBAs.

Do CIDA's PBAs *in practice* respond effectively to the conditions and priorities of the majority of people whose lives are circumscribed by poverty? Or have PBAs actually further deepened CIDA's complicity with donor imposed conditions, largely determined by the World Bank and the IMF, for aid transfers that substantially undermine recipient ownership over appropriate policy choices?

¹ This paper brings together CCIC commissioned research by Pam Foster, Coordinator of the Halifax Initiative, on CIDA's relationship and role in World Bank / IMF and aid conditionality through program based approaches and research conducted by Brian Tomlinson, with the CCIC Policy Team, with CCIC members on the implementation of CIDA's new aid policies. The former benefited from several interviews with CIDA officials involved in PBAs, who provided insights and identified documents, for which we are very grateful. The full paper is available on the web site of CCIC (www.ccic.ca) and Halifax Initiative (www.halifaxinitiative.org).

² Lavergne, R., Alba, A., *CIDA Primer on Program Based Approaches*, CIDA Policy Branch, September 2003, available from CIDA's limited access extranet site on PBAs (<http://remote4.acdi-cida.gc.ca/pbas>), p. 2.

This paper draws on several CIDA country experiences, and it also sets this experience within a broader context of academic and civil society research. In summary, this evidence suggests that donors as a group appear to have increased their own level of influence and control over a wider range of policy areas open to developing country governments. The World Bank and the IMF in particular seem to have increased their dominance through PBAs, most clearly in budget support programs. The World Bank, however, is subject to greater negotiation in PBAs. Bilateral donors, if they were to work in a coordinated approach, could have increased opportunity and a rationale to contest the Bank and IMF policies. But to date there is little indication of outcomes of inter-donor dialogue that challenge the approach sought by the Bank and the Fund, perhaps with a few qualifications.

2.0 PROGRAM BASED APPROACHES IN CIDA'S AID STRATEGIES

As a means for strengthening aid effectiveness, civil society critics and official donors agree on the importance of PBAs' laudable goals: focusing on developing country ownership and capacities, lowering aid transaction costs (reducing hundreds of project oriented donor missions and unique reporting requirements for developing country governments) and improving donor coordination in ongoing dialogue with developing country partners.

Program based approaches are a leading trend in structuring CIDA's aid relationships with the poorest countries. By December 2004, CIDA reported that 45 PBAs were operational or under development. Current multiyear commitments for these PBAs approximate \$1.4 billion from bilateral resources.³ While the focus of much attention, CIDA estimates that the new programming modalities will absorb roughly 15% of CIDA's share of the ODA budget by 2005/06. PBAs tend to be focused in Sub-Saharan Africa and in several social sectors (education and health) and agriculture. By 2005/06, CIDA estimates that 60% of its aid to Sub-Saharan Africa – with six of the nine priority countries – will be in the form of PBA.

3.0 CIDA AND POVERTY REDUCTION STRATEGY PAPERS (PRSPs)

CIDA's country program options and directions for countries with significant CIDA programming are defined periodically through its Country Development Policy Frameworks (CDPFs). The assumption in all CDPFs which were reviewed in this study for the nine countries of priority is that the PRSP is **the** expression of country consensus on development priorities for reducing poverty and therefore the foundation for country "ownership" of CIDA's aid strategies for that country.

Despite evidence even of serious misgivings on the part of CIDA country programmers about the process leading to specific country PRSPs, supported by conclusions of a recent IMF-sponsored Independent Evaluation, CDPFs seldom proposed substantial program approaches and strategies to strengthen real dialogue and significant country ownership in country poverty strategies with local actors, particularly those representing and working with the poor and marginalized. In new CDPFs for the nine priority countries, CIDA's focus is rather almost entirely on strengthening government capacities and accountability to donors, often at the central level of the ministries concerned.

Donor country strategies need to take account of a wide range of country stakeholders, including civil society actors, who often have real and conflicting interests when addressing alternatives and structural issues (such as land re-distribution) required for sustained poverty reduction. Without substantial attention to the complexity of these and other issues that affect the development and implementation of PRSPs, CIDA country program strategies are likely to take on board all of their inherent weaknesses.

³ CCIC calculation based on data provided by CIDA.

4.0 LOCAL OWNERSHIP, DONOR HARMONIZATION AND IMF/BANK CONDITIONALITIES IN PBAS

In the context of program based approaches, donors at best define “local ownership” as shared power over development policies and approaches, as exemplified by the PRSP process.

Donors, like CIDA, suggest that PBAs can be the most appropriate aid modality when a “consensus” exists between the recipient government and donors on policies and priorities, with regard to the budget and the broader policy environment for poverty reduction. But many civil society critics suggest that PBAs and Budget Support initiatives in particular, are the next stage of external donor deep interference and control in the poorest countries. The approach involves donors in a much wider range of government areas of responsibility, not only economic and social policy, but also all levels of public administration and service delivery.

For example, a Tanzanian General Budget Support program contains about 50 prior actions (policy actions in the commonly agreed Performance Assessment Framework which includes prior actions of the World Bank), plus 60 results indicators selected by a Poverty Reduction Strategy monitoring system are reviewed (for policy dialogue, not release of donor funds).

Rather than reduce conditionality, donors have been promoting procedural and policy “harmonization” in the management of the aid relationship. Critics are concerned that donor harmonization increases donor power in the already highly unequal aid relationship. A recent UK civil society paper suggests that as donors reduce the amount of their bilateral aid tied to their national interests, they are constructing a “globalized” aid regime with global conditionalities for which no one donor accepts accountability.⁴ Instead these global conditions are determined and agreed by international financial institutions and the major donors, with the enforcing power of pooled donor resources (debt cancellation, budget support and SWAps) behind these conditions.

Consequently, budget and sector programs, as well as poverty reduction strategies, often reflect what one analyst terms “the politics of the mirror” – addressing potential aid donors “in the language that is most congenial, and crucially, most easily reinforces the belief that they [outside donors] understand what [the recipient] needs.”⁵

4.1 PBAs and Governance Capacities and Conditionalities

Program based approaches aim to work within recipient government systems, in particular the systems of budget planning and execution, accounting, procurement and performance management. There is yet to be a developing country whose systems have been assessed by donors as being adequate. A key priority for donors is therefore to strengthen government ministries and governance systems through PBAs.

Donors and recipient partners are to come to agreement on resource transfers through policy dialogue. As a result PBAs allow donors to engage on a much wider range of issues than in the project approach, whether providing support for a primary health or education sector or a broader macro-economic or institutional framework for budget implementation of PRSPs. Donors are devoting considerable resources to work with governments to draw up detailed work plans, policy matrices or performance assessment frameworks. But the actual performance indicators are often taken from the IMF’s Poverty Reduction Growth Facility, the commitments made to be eligible for HIPC debt relief, and various Bank/IMF resource transfer facilities.

⁴ Hall, D and de la Motte, R., “Dogmatic Development: Privatization and Conditionality in Six Countries”, a Public Service Research Unit Report for War on Want, February 2004, accessible at <http://www.waronwant.org/?lid=7540>.

⁵ Sogge, D. *Give and Take, What’s the matter with foreign aid*, Reading: Zed Books, 2002, 48.

The Government of Ghana for example, must focus in the first two years of its Budget Support Program on five key reforms – integration of the Ghana Poverty Reduction Strategy into the budget, public sector reforms, public finance management, governance and decentralization. Only when progress has been made in these reform areas with the focus change to sector programs in areas such as health, education, roads, energy. With current donor commitments, total three years' contributions are expected to exceed US\$800 million, which will potentially represent close to 40% of total aid flows for Ghana.

4.2 PBAs and IMF/World Bank “Gatekeeper” Conditionalities

CIDA recognizes the strong “gatekeeper” relationship with Bank/IMF conditionalities in the context of broader policy discussions related to poverty reduction strategies. Its *Primer on Program Based Approaches* notes that one approach for donors providing budget support is to adopt IMF and World Bank policy conditionalities already in place or being negotiated to promote macroeconomic stability, in addition to any sector level conditions or conditions relating to the country's PBS.

The IMF, as gatekeeper, is often not even at the table in a multiple donor budget support program negotiations with developing country partners. But it is always preparing the menu in the kitchen. Their presence and pressures behind the scenes further strengthens the likelihood of successful implementation of their advice, as to fall off-track would be to court financial disaster involving other donors. CIDA's budget support programs do not seem to consider options as to what actions it would take if a country were off-track in its IMF program, even though typically countries are off-track because they do not “own” the conditions they are being compelled to implement.

Having a diversity of aid modalities, as well as partners beyond government, may be critical for effective cooperation to reduce poverty on the part of donors such as CIDA. Uncertainties in many countries suggest that project support that targets explicitly the rights and conditions facing people living in poverty may be equally important to budget support or SWAPs.

4.3 Mitigating Risk for Medium-Sized Donors: Deferring to the IFIs in Policy Diagnostics

Concerned with the capacities of the governments of the poorest countries, the emphasis of medium sized donors such as CIDA is on the need for careful assessment of the most important risks in PBAs. The focus has been on fungibility or additionality risk (donor resources replace government resource without a net increase in allocations in a given sector), fiduciary risk (donor resources are not used for the purposes they are intended and there is lack of accountability), implementation and under-achievement risk (unforeseen barriers in implementing programs for beneficiaries and not meeting pre-determined results).

Developing country governments, not to mention people living in poverty, may have very different notions of risk in the aid relationships; but these seldom are the foremost concern of donors.

To assess these risks, CIDA analyses relevant documents, many of which are World Bank or IMF documents – the World Bank's Country Procurement Assessment Review (CPAR), the Country Financial Accountability Assessment (CFAA), the Public Expenditure Review (PER), and Public Expenditure Management Handbook, the IMF's Manual on Fiscal Transparency and the IMF's Report on Standards and Codes. However, CIDA's actual capacity to analyze these documents was recognized as low by CIDA officials involved in PBAs.

While more technical staff may be required, there appears to be little thought given to the opportunity (and the capacities needed) in the new aid modalities for CIDA and other donors to question the “collective wisdom” of the IMF and World Bank country documents. CIDA officials, interviewed for this study, repeatedly commented on the technical comparative advantages of the World Bank and the IMF.

This deference to the IFIs, taken by most if not all bilateral donors, in assessing country capacity and policies, raises questions about whether current donor diagnostic efforts works to strengthen local ownership of PRSPs or may actually undermine it. Both CIDA officials interviewed and the literature review suggest that host countries involvement in diagnostic work is very much subsidiary to the role of the Bank and the Fund, although some donors see this as a short-term reality until capacities increase. Almost all diagnostic exercises result in an action plan or set of recommendations in which citizens and even developing country governments have little influence on the nature of the reforms proposed.

4.4 A Donor-Imposed “Policy Consensus?”

Donors de-politicize national policy making process by negotiating (often in secret) with governments standardized and seemingly technical policies or capacity improvements over which they then assume a political consensus. In doing so, they undermine political processes of governing involving the inclusion of citizens in determining options for realizing their rights, which are somewhat unique to each country. Donor assumptions about policy consensus affect several areas which are highly contested.

Donors, including CIDA, are promoting approaches, such as procurement policies, privatization or public / private partnerships, for the delivery of services that have had serious impact on the rights of the poor to access essential services. With procurement, for example, donors push compatibility with developed country initiatives in the WTO to grant equal treatment to domestic and foreign enterprise supplies, despite consistent and strong opposition on the part of Southern governments at the WTO.

5.0 CIVIL SOCIETY ORGANIZATIONS AND OWNERSHIP IN CIDA’S PBAs

The role of civil society organizations might appear to be given more importance through the new aid modalities’ focus on participation in determining PRSP priorities. However, although donors have rhetorically encouraged participation in PRSPs, the quality of CSO participation has been almost universally characterized by CSOs involved as engagement for engagement’s sake. Donors have been far more interested in the numbers of CSOs at government managed events, than how their input has been taken on board. Some CSOs suggest that PRSPs are a tactical means by the donors to anchor and legitimize the policy prescriptions of the Washington Consensus in society.

As noted, CIDA has focused almost exclusively on strengthening its programmatic relationship with government and the effective implementation of government development strategies in coordination with other donors. Overall, in the three years between 1999 and 2002 CIDA disbursements through civil society implementing partners declined by more than 6%, with disbursements through CSOs declining 25% in the bilateral programs.⁶

Civil society appears marginal to CIDA’s consideration of issues of accountability, capacity and effectiveness of government to meet development expectations. The information and analytical base on civil society in the CDPFs, taking serious account of country and Canadian CSO input, overall is very weak (with the notable exception of the Bolivia CDPF).

CIDA Partnership Branch has yet to clarify its potential, and therefore the potential of Canadian NGO involvement in PBAs. Should the Branch be encouraging Canadian NGOs to adopt a PBA in some of their own work in developing countries or vis-à-vis CIDA’s relationships with CSOs in PBA countries? CIDA officials involved in PBAs refer to the need for serious discussion on the implications of PBAs for donor support of CSOs, Canadian and in-country.

⁶ CCIC calculation based on data provided by CIDA. As a proportion of CIDA’s ODA resources, CSOs disbursed 29% in 1999/00 and 21% in 2002/03.

Overall donors identify the role of civil society as service oriented in relation to government sector programming. CSOs under the new modalities are expected to be available as sub-contractors to government *and at the same time* be advocacy organizations holding government to account. These roles are in tension: “[t]here is a danger that the changes in funding modalities will force a new dependence on government which will restrict CSOs’ ability to carry out the very role that donors are trying to enhance – that of ‘holding government to account’”.⁷

One way forward would be for donors to support policy/advocacy capacities in traditionally defined service delivery CSOs, in both recipient and donor countries, and to ensure independence through more traditional partnerships, such as CSO-to-CSO. Improving the political will of bilateral donors, in their role as leading governors at the Bank and the Fund, to democratize the policy making process inside these IFIs will also be a key ingredient to effective development ownership and civil society participation in developing countries. These issues will influence how CIDA may resolve its relationships with CSOs in PBAs.

6.0 A WAY FORWARD

Empowering developing countries to give priority to policies and programs that significantly reduce poverty will require substantial reforms in the current modalities of aid and governance on the part of both donors and governments in developing countries. In the words of The Reality of Aid 2004 Report by a global network of CSOs, “aid should be treated as money held in trust for people in poverty” and must be directed in ways that secure their rights.⁸

CIDA, as a respected and medium size donor, can continue to play a leadership role in the evolution of program based approaches focusing on poverty reduction by adopting the following proposals.

Canadian international cooperation policy should work with other bilateral donors to,

1. Create space for ownership with a diversity of developing country partners:

- a) Ensure that the IMF and World Bank fully and unconditionally write off the debt of the poorest countries using the existing resources of the IFIs and delink their commitment to budget support and its disbursements from a satisfactory assessment from the IMF Poverty Reduction and Growth Facility.
- b) Assist developing country governments to mobilize their own domestic resources, including recognition of donor and developed country trade and finance policies that affect capacities and sources of revenues in developing countries.
- c) Support and take direction from political processes within developing countries to create their own national development strategies and poverty reduction plans, rather than condition bilateral and multilateral aid on externally motivated PRSPs.
- d) Provide capacity-building to government and civil society to undertake research and policy analysis on their own development options to determine a menu of policy directions to support poverty reduction.
- e) Increase their support to internal capacities of local governments and improve their relationships with *autonomous* local and community based civil society organizations, as donors step back and allow national processes and systems to work.

⁷ Sarah Lister and Warren Nyamugasira, "Design Contradictions in the 'New Architecture of Aid'? Reflections from Uganda on the Roles of Civil Society Organizations" in *Development Policy Review*, 2003, 21 (1), p. 93.

⁸ *The Reality of Aid Report, 2004*, on Governance and Rights in International Cooperation, pp 29-30.

2. Increase donor voice and action for a diversity of policy alternatives in donor-recipient dialogue:

- a) Develop a greater capacity within CIDA to do inter-disciplinary work – economic, institutional, political and social development analyses.
- b) Take advantage of inter-donor space in budget support discussions, to bring to the table critiques and challenges to IMF/World Bank approach to core macroeconomic policy, recognizing the political nature of macro policy choices.

3. Support Civil Society in profiling development alternatives, reaching the poor, and in policy advocacy:

- a) Develop a CIDA agency-wide policy framework for engaging civil society in the development process, which includes significant and timely engagement with Canadian and developing country CSOs in the development and priorities for CIDA's Country Development Policy Frameworks (CDPFs).
- b) Provide support for civil society participation, voices and programs that bring different perspectives and voices to national poverty reduction strategies, recognizing the necessity of a "marketplace of ideas", as well as weaknesses in national processes.
- c) Provide support for policy/advocacy development within traditionally defined service delivery CSOs, in donor and recipient countries.
- d) Provide support and encouragement for niche roles by autonomous civil society organizations, from community to national levels, in all phases of sector wide approaches.