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Letter dated 29 June 2012 from the Permanent Representative of Luxembourg to the United Nations addressed to the President of the Economic and Social Council

I have the honour to transmit herewith the report of the High-level Symposium on the theme “Working together to increase the development impact of aid”. The Symposium was held in Luxembourg on 18 and 19 October 2011, in preparation for the 2012 Development Cooperation Forum (see annex).

I would be grateful if the present letter and its annex could be circulated as a document of the Council under agenda item 2 (b).

(*Signed*) Sylvie **Lucas**
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Annex to the letter dated 29 June 2012 from the Permanent Representative of Luxembourg to the United Nations addressed to the President of the Economic and Social Council

Preparing for the 2012 Development Cooperation Forum: report of the High-level Symposium on the theme "Working together to increase the development impact of aid", held in Luxembourg on 18 and 19 October 2011

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I. Introduction

1. The 2005 World Summit mandated the United Nations Economic and Social Council to convene a biennial high-level Development Cooperation Forum to "review trends and progress in international development cooperation, including strategies, policies and financing; promote greater coherence among the development activities of different development partners and strengthen the normative and operational link in the work of the United Nations".[1]

2. The Forum aims to promote and improve international development cooperation to attain the internationally agreed development goals, including the Millennium Development Goals. It provides a platform to enhance dialogue among all stakeholders to find effective ways to support this process.[2]

3. The next Forum will be held on 5 and 6 July 2012, in New York. To facilitate dialogue among development cooperation actors and States Members of the United Nations, the Department of Economic and Social Affairs of the United Nations Secretariat has supported the organization of high-level symposiums in 2011 and 2012. The Luxembourg Symposium was the second of three preparatory events for the 2012 Forum. The first Symposium was held in Mali in May 2011, on how aid can achieve development results in the long run. The third Symposium will be held in Brisbane, Australia, on 14 and 15 May 2012, on the nexus of development cooperation and sustainable development.

II. Objectives of the Luxembourg High-level Symposium

4. The Symposium was held against the backdrop of the continuing economic and financial crisis. It was a time when concerns about the risk of a double-dip recession in developed countries were high, and when there was a perceived need for more effective action in major economies to put the world on a path to economic recovery. It was also a time when expectations about future trends in official development assistance were grim.

5. The Symposium aimed to better understand how best to maximize the impact of aid. It focused on how to use aid to leverage other sources of development finance that are most conducive to poverty eradication and the realization of the internationally agreed development goals. The various sessions and breakout groups enabled participants to exchange lessons learned. This led to lively discussions on how to use aid to broaden access to inclusive financial services, promote domestic revenue mobilization and attract foreign direct investment.

6. The Symposium also debated the experiences of developing countries in promoting more coherent management and use of both aid and other development finance, notably domestic and foreign resources. It also reflected on how to include all

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[1] More information on the 2012 Forum and its preparations are available from: http://www.un.org/ecosoc/newfunct/2008dcf.shtml and http://www.un.org/ecosoc/newfunct/preparations.shtml.

[2] The Doha outcome document recognized the important contribution of the Development Cooperation Forum in its efforts to improve the quality of official development assistance and to increase its development impact. It also mandated the Forum to review more systematic and universal ways to follow the quantity, quality and effectiveness of aid, giving due regard to existing mechanisms (see General Assembly resolution 63/239, annex).

relevant actors in national and sectoral reviews of aid policies and commitments — with a view to enhancing the impact of aid.

7. A common theme running through the discussion was the need to maintain the volume of aid at a level commensurate with the challenges faced by developing countries and consistent with promises made.

8. The Symposium was attended by approximately 150 participants, representing the wide spectrum of development actors, from Governments to parliamentarians and from non-governmental organizations (NGOs) to the private sector, and local authorities. The discussions were frank and lively. They were held under Chatham House Rules. Key messages from the discussions are highlighted below.

9. The recommendations of the Luxembourg Symposium will serve as a basis for discussions at the 2012 Development Cooperation Forum. The discussions on the catalytic role of aid also contributed to the preparations for the Fourth High-level Forum on Aid Effectiveness, to be held in Busan, Republic of Korea, in November and December 2011.

III. Key messages from the Symposium

10. The following key messages emanated from the Symposium:

(a) **Aid may be used to mobilize other development finance conducive to development**:

- The discussion of how to maximize the development impact of aid should not take place in a vacuum. There is a need to more aggressively take into consideration the political economy dimension
- Whenever public money is used to leverage private funding, it is critical to ensure that it leads to concrete and measurable development outcomes
- If a project appears sustainable in the long term, guarantees, soft loans and equities should be used to finance those projects rather than precious and scarce aid money. At the same time, the current debt sustainability frameworks should be reviewed so that countries are not pushed into debt distress
- Some felt that multilateral development banks should put a greater emphasis on domestic resource mobilization rather than focusing on foreign direct investment
- Better harnessing the potential of innovative sources of finance is one way to afford developing countries the policy space necessary to conduct countercyclical policies

(b) **Many lessons have been learned on how to support inclusive financial sectors**:

- Financial inclusion should not be seen as an end in itself, but as one element among many others that may contribute to the achievement of the Millennium Development Goals
- Inadequate access to microfinance has implications for the real economy. It leads to a suboptimal amount of investment and job creation

- At the national level, public policy interventions on the supply side and on the demand side, as well as measures targeted at the financial sector as a whole, are necessary to ensure access, usage and impact, three key elements of financial inclusion
- Important measures are called for to address market failures; and there is a need to further develop supporting structures for the financial sector, as well as capacity-building frameworks for financial service providers
- Public funds can leverage large amounts of private (capital market) funds for the support of inclusive financial sectors; and public and private interests can be successfully brought together in innovative partnerships
- At the global level, key principles have been established for building inclusive financial sectors
- The 2006 "Blue Book" *Building Inclusive Financial Sectors for Development*[3] paved the ground for many present and future global initiatives
- The evidence about the development impact of microfinance supported by aid is currently mixed. There is a need for more analysis to demonstrate that financial services are really supporting the achievement of the Millennium Development Goals

(c) **Domestic resource mobilization is at the centre of resilience**:

- Domestic revenue mobilization should be an integral part of discussions on effective development cooperation at global level
- Tax reform is a main source of domestic finance and a powerful tool to reduce aid dependency. It needs to be visibly supported and developed by senior government officials
- More long-term external support is needed for strengthening national tax systems to raise nominal tax revenues. Such support should be demand driven, aligned to national priorities and well coordinated with all relevant actors. It should go hand in hand with broad-based political dialogue on tax issues and the functioning of tax systems
- To demonstrate the positive impact of paying taxes, government services for the most vulnerable populations must improve. It is vital that revenues mobilized through taxation clearly contribute to the achievement of international and national development goals
- National Governments should also put the spotlight on tax evasion
- There is great scope for increasing coherence between policies related to foreign direct investment and those related to domestic resource mobilization. Governments need to strike a balance between taxing large taxpayers and multinational corporations and other segments of taxpaying populations

[3] United Nations publication, Sales No. E.06.II.A.3.

(d) **Using aid to catalyse foreign direct investment entails both opportunities and risks**:

- Private investment is critical to expand the revenue base of developing countries and promote their financial independence. Developing countries, however, face considerable challenges in attracting sufficient private flows and ensuring that they contribute to national development objectives, such as job creation, sustainable growth and poverty eradication
- Mobilizing private investment/foreign direct investment to promote development entails opportunities but also risks
- A range of lessons have been learned in the past 30 years on how best to use aid to attract private investment, including foreign direct investment, that contributes to poverty reduction and inclusive growth
- Aid should be used to mitigate the risks/costs for private investors and to improve the overall investment climate to attract all kinds of investment. It should, however, not turn into a form of subsidy for foreign direct investment at the expense of the host country or into another form of tied aid
- At the same time, strategies to use aid to attract foreign direct investment need to link private investment incentives, on the one hand, and the national economy and national development goals of developing countries, on the other
- The use of aid as a catalyst for foreign direct investment should be accompanied by a proper regulatory framework and regular country-level reviews of the impact of such investment on the host country's economy as compared to more broad-based forms of investment
- Domestic private investment is more effective and sustainable than foreign direct investment in promoting national development

(e) **Capacity-building is needed to promote more coherent management and use of financing at the country level**:

- Managing various financial flows to maximize their development impact involves understanding the diverse incentives, modalities and time frames governing such flows
- Priority should be given to improving the capacity and public finance systems of recipient countries in managing various financial flows
- National development strategies, including partnership policies and frameworks, are important tools for ensuring the coherent management of all kinds of financial flows. They should ensure that all actors work together and use national systems. An exit strategy is also essential. Stakeholders must work together to ensure that these strategies and policies achieve results
- Both donors and recipients should "do their job well". Donors should accelerate the division of labour and prioritize budget support. Recipients should align their policies with development objectives

(f) **Mutual accountability is increasingly seen as critical to maximizing aid results**:

- Mutual accountability between programme countries and their development providers is gaining traction in the political debate on the results and impact of aid. It should become an integral part of results-oriented development planning at the country level. Yet, progress in developing effective mutual accountability mechanisms remains disappointingly low
- Aid policies and performance assessment frameworks can be a major incentive for progress in honouring commitments. This is particularly true if they include individual targets for providers and programme countries and build on national development strategies
- High-level, inclusive multi-stakeholder platforms and accessible databases on aid are equally critical
- An injection of resources is needed to scale up information systems, monitoring and evaluation capacity, and country leadership with regard to analysis, consultation and negotiation
- At the same time, accountability and reporting structures need to be simplified for programme countries. The number of indicators against which recipients are being assessed needs to be reduced
- “Beyond aid” issues affecting development should also be better addressed in mutual accountability mechanisms
- Peer learning at the country and regional levels will be critical in the coming years. So far, structured South-South exchanges of lessons learned among developing countries have been effective in improving mutual accountability processes
- At the global level, the Development Cooperation Forum should further strengthen its position as the global apex body for mutual accountability. Dialogue structures need to be truly inclusive.

IV. Detailed summary of panel discussions at the Symposium

A. Aid may be used to mobilize other financial flows conducive to development

11. This panel discussed ways of: (a) effectively using aid to leverage other sources of development finance; and (b) ensuring the continued focus of development cooperation on poverty reduction and the achievement of the Millennium Development Goals. Initial presentations were made by Zambia, the United States of America and the European Network on Debt and Development (EURODAD).

Background

12. Closing the “Millennium Development Goals financing gap” is essential to achieving the Goals by 2015, as is maximizing the development impact of aid. One factor limiting the development impact of aid is that, currently, aid is not

sufficiently allocated on the basis of needs and structural vulnerabilities. Nonetheless, given its focus on the Goals and the social sector, aid has been targeted at the poorest, which is not always the case of other sources of development finance.

13. While there has been a sharp increase in the absolute quantity of aid, aid dependency — namely, the proportion of government spending that comes from aid — has fallen considerably in the poorest countries. Reduced aid dependency can help countries to increase their fiscal and policy space and empowers them to design their own country-owned and country-led development strategy by shielding them from the volatility of aid flows. Where used effectively, aid itself has played an important role in reducing aid dependency. It has helped to mobilize additional resources by encouraging higher taxation, savings and investment, including by the poorest, and helped to accelerate growth.

14. In many developing countries, aid is also now dwarfed by other financial resources, such as remittances, foreign investment, bank loans or bonds and from domestic sources, such as tax revenue and domestic savings investment and loans. Innovative sources of finance are also playing an increasingly important role. Foreign capital can make an important contribution to development. Where foreign direct investment forges linkages with the wider local economy, a positive impact on development and the achievement of the Millennium Development Goals can be observed. South-South foreign direct investment can be particularly effective in forging such linkages.

Key challenges and success factors

15. **The question of how to maximize the development impact of aid should not be discussed in a vacuum**. There is a need to more actively take into consideration the political economy dimension. It is important to acknowledge the potential conflict between a developing country focus on country ownership and a donor country focus on development results assessed against global targets.

16. **The focus should be on country ownership**, as established in the high-level forums on aid effectiveness (Paris, Accra and Busan). This implies supporting countries in realizing their chosen development path. To secure continued funding, donors frequently pursue highly targeted aid programmes with clearly defined global goals and targets. These tend to lack country ownership and may be poorly integrated into countries' national strategies.

17. **Aid predictions for the coming years are sobering**. Despite the fact that development aid reached an all time high in 2010, only a handful of countries have met or even exceeded the United Nations official development assistance target of 0.7 per cent. In addition, there is an increasing bilateralization of aid.

18. **There is an urgent need to address the issue of aid orphans**. The proposal of the European Commission to give priority to countries with the greatest needs and vulnerabilities is welcome. It was pointed out that, to make real headway, an analysis of the political economy would be needed.

19. **Development assistance often comes with policy advice attached**. Conditionalities remain prevalent, in particular in the area of technical assistance. Regulations and standards should be adopted for ensuring a minimum standard for public private partnerships.

20. **Current funding modalities should not push countries into debt distress**. There is a trend to use blended funding and leverage aid in order to stretch out ever scarcer aid monies. To ensure that countries are not being pushed into debt distress, there was a call to review the current World Bank/International Monetary Fund (IMF) debt sustainability framework to ensure that countries servicing their debt will, at the same time, be able to make the necessary investment to achieve the Millennium Development Goals.

21. **Private investment needs to be sustainable over time.** On the increased use of public money to leverage private funds, it was pointed out that blending aid and loans might be suitable for private sector lending. If the long-term sustainability of a project appears ensured, guarantees, soft loans and equities rather than precious aid should be used to finance it.

22. **A more rigorous assessment of the development impact of mobilizing private investment is needed**. A World Bank report which assessed all projects of the International Finance Corporation found that more than half could not prove that they are delivering development outcomes. There is a need for developing tools to ensure that the development impact is not only higher but also clearly measurable.

23. **Developing countries should be supported in their efforts to strengthen their capacity to negotiate fair investment contracts**. Developed countries should adopt investment rules that promote responsible investment.

24. **Multilateral development banks should put a greater emphasis on the mobilization of domestic resources rather than focusing on foreign direct investment**. Recent experience has shown the risks associated with unregulated financial markets. There was a call for a greater allocation of funds to support domestic investment, which currently is an orphan in the portfolio of several development banks.

25. **The importance of promoting an effective tax system as a key element in the generation of domestic revenue was highlighted**. There is an urgent need to curb the $1.3 trillion in illicit capital outflows from developing countries each year. The provisions of the Organization for Economic Cooperation and Development (OECD) Convention on Combating Bribery of Foreign Public Officials in International Transactions and the United Nations Convention against Corruption should be effectively enforced.

26. **Countries need to be aware of all of the funds available to them for development** — both on-budget and off-budget. This would help to ensure that development is country-owned and country-led. It is also important to include parliaments and donors in aid management strategies. Rwanda was cited as a successful example.

27. **Better harnessing the potential of innovative sources of finance is one way to afford countries the policy space necessary to conduct countercyclical policies**. In its new communication, the European Commission proposed to allocate a higher share of aid to innovative mechanisms of financing with significant potential for revenue generation, including through blending and other risk-sharing mechanisms.

28. In terms of aid allocation, one participant suggested that a distinction should be made between the countries that have put in place the necessary policies, systems and frameworks, thereby making the achievement of the Millennium Development

Goals a possibility in the future, and those countries that did not undertake such measures and that hence might never achieve the Goals.

B. Many lessons have been learned on using aid to broaden access to inclusive financial sectors

29. This panel discussed ways to maximize the impact of aid on promoting pro-poor, inclusive financial systems and sectors, with a particular impact on microcredit, microsavings and microinsurance.

30. Presentations were made by representatives of Burkina Faso, Luxembourg and the United Nations Capital Development Fund and by an independent expert. Panellists and participants then shared policies and practices, identified challenges and suggested solutions.

Background

31. Today, more than 2.5 billion people worldwide lack access to regular and affordable financial services. This deprives them of opportunities to invest, raise or stabilize their incomes and diversify their assets, preventing them in turn from reducing and mitigating their vulnerability.

32. The Monterrey Consensus on Financing for Development[4] recognizes the importance of inclusive financial sectors. It states that "microfinance and credit for micro-, small and medium-sized enterprises […] as well as national savings schemes are important for enhancing the social and economic impact of the financial sector". In 2012, insurance and remittances, as well as many other innovative financial services, might be added to that list.

33. The past years have seen an exponential increase in the amount of aid devoted to financial inclusion. A study by the Consultative Group to Assist the Poor shows that, in 2010, more than $13 billion was committed for this purpose by international donors and investors, with an increase of $1 billion per year.

34. With this trend, it has become all the more important to provide evidence about the development impact of aid-supported microfinance. Currently, that evidence is mixed. There are indications that microfinance may have benefited people with entrepreneurial skills and those around or above the poverty line, rather than the poorest people.

35. The example of Burkina Faso, which included microfinance as a key tool in its poverty reduction strategy, illustrates the potential of microfinance. The membership of Burkina Faso in the West African Economic and Monetary Union has helped the country to create an enabling environment. Since 1995, the microfinance sector has experienced a remarkable growth, accompanied by a special effort to reach out to the most vulnerable and poor people. Despite this impressive progress, major challenges remain. Better supporting structures for the financial sectors and more capacity-building frameworks for financial service providers are needed.

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[4] *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex.

36. The experience of Luxembourg shows that public funds can leverage huge amounts of private funds for microfinance and for other initiatives. Public-private partnerships have been at the heart of this success. Luxembourg has continuously established links between various national ministries, NGOs and private actors in order to foster collaborations in the domain of inclusive finance, and microfinance, more specifically. One example is the Luxembourg Microfinance and Development Fund, a commercial microfinance investment vehicle that leverages funds from foreign investors to finance specialized lower-tier microfinance institutions in Africa, Asia and Latin America. Another example is the Alliance for a Green Revolution in Africa, an initiative that leverages funds from local investors, and especially local banks, for the financing of innovative agricultural projects in Africa. Today, one third of all commercial microfinance investment vehicles are registered in Luxembourg, with assets under management of over $3 billion.

37. The following key messages emerged from the debate:

Key challenges and success factors

38. **Financial inclusion should not be seen as an end in itself, but as one element among many others that may contribute to the achievement of the Millennium Development Goals**. Financial inclusion and microfinance seem to have the potential of helping people in developing countries to better manage their cash flows and risks, to reduce their poverty and to cope with their vulnerability.

39. Encouraging individual success stories exist, and microfinance seems to have important implications for the real economy of developing countries, as it affects the overall level of investment and job creation. However, the sustainability and outreach of inclusive financial service providers remain important challenges, and incidences of the over-indebtedness of clients have become more common. So, the evidence of the true development impact of microfinance remains mixed, and there clearly is a need for more analysis to prove that financial inclusion supports the Millennium Development Goals.

40. **At a national level, public policy interventions on the supply side and on the demand side, as well as measures targeted at the financial sector as a whole, are needed to ensure access, usage and impact, which are the key elements of financial inclusion**. Financial inclusion means the opportunity to access financial services, which requires a bank branch, an automated teller machine or some other physical point of sale. Furthermore, no matter how dense and well-designed the financial infrastructure of a developing country, in order to ensure financial inclusion, people also need the capacity and thus the education to fully understand the terms and conditions, and the risks and costs, of financial services. And even if proper usage of credit, savings, insurance and other financial services is given, for financial inclusion to be fully realized, there still need to be positive effects, namely, an impact on the well-being of individuals or of the society as a whole. Financial inclusion thus requires national public policy interventions on the supply side, mainly affecting access, and on the demand side, mainly affecting usage, as well as measures targeted at the sector as a whole, mainly influencing the impact of inclusive financial services.

41. **At the global level, key principles have been developed for building inclusive financial sectors**. The fact that the United Nations has a specific convening power for supporting and strengthening inclusive financial sectors became especially

clear, when, in 2005, the International Year of Microcredit, the United Nations Capital Development Fund and the Financing for Development Office of the Department of Economic and Social Affairs of the Secretariat launched a consultative process on financial inclusion, coordinated by a group composed of the World Bank, IMF, the International Labour Organization and the International Fund for Agricultural Development, and supported by many other financial sector experts. As a major part of this process, a series of multi-stakeholder consultations were organized in Africa, Asia and Latin America, culminating in a Global Meeting on Building Inclusive Financial Sectors for Development and in the publication of the “Blue Book”, containing key principles for financial inclusion.

Policy solutions and suggestions

42. **Important measures are called for to address market failures; and there is a need to further develop supporting structures for the financial sector, as well as capacity-building frameworks for financial service providers**. Supply-side interventions to improve access to inclusive financial services can consist in more direct actions, such as the creation of government banks, development finance institutions and apex funds; but they can also consist in more indirect actions, such as the establishment of an enabling environment for the development of inclusive financial systems and for the provision of inclusive financial services. In that context, well-functioning infrastructures, adjustments in the regulation and supervision of the financial system, the elimination of barriers to market entry, or smart subsidies, as well as fiscal sanctions and incentives for inclusive financial services providers can play an important role. Demand-side interventions to improve the usage of inclusive financial services focus more on financial education and consumer protection, and include awareness-raising campaigns, financial literacy trainings and the like.

43. Finally, measures improving the impact of inclusive financial services especially concern the development of supporting structures for the financial sector, as well as of capacity-building frameworks for inclusive financial services providers. Actions that increase transparency within the sector and that allow for a better exchange of data and other information between inclusive financial service providers also play an important role here.

44. **Public funds can leverage large amounts of private (capital market) funds for the support of inclusive financial sectors; and public and private interests can be successfully brought together in innovative partnerships**. Successful collaborations in the domain of inclusive finance generally, and in the domain of microfinance more specifically, can be realized by continuously establishing and reinforcing links between national ministries, civil society organizations, and private actors. In particular, where commercial interests are related to development outcomes, innovative public-private partnerships can be a promising path. The various providers of inclusive financial services should, however, carefully assess the comparative advantages and disadvantages of the various supporting and funding opportunities available to them.

45. **The 2006 “Blue Book” *Building Inclusive Financial Sectors for Development* paved the ground for many global initiatives**. The “Blue Book”, published in the framework of the United Nations global consultative process on financial inclusion, established key principles for supporting and funding inclusive financial sectors worldwide. Furthermore, it paved the ground for many later initiatives, such as the

"Global Partnership for Financial Inclusions" by the Group of Twenty, the Alliance for Financial Inclusion, the Consultative Group to Assist the Poor and the International Finance Corporation. The need for continuing multi-stakeholder exchanges and joint, well-coordinated efforts for building inclusive financial sectors, remains unquestioned, however.

C. Domestic resource mobilization is at the centre of resilience

46. Tax reform is a main source of domestic finance and a powerful tool for reducing aid dependency. It is therefore an increasingly attractive area for developing countries and donors alike. Improving tax policy and administration is also important for governments to improve their delivery of services and their accountability to their citizens. It is receiving mounting interest at a time when fiscal austerity is increasing in donor countries and when ever-growing importance is attached to sound public finances.

47. Germany, Uganda and ActionAid made short presentations. This was followed by an interactive debate moderated by the former President of the North-South Institute. At the end of the panel, a consultant from Nathans Associates identified key findings from the discussion.

Background

48. Mobilizing domestic resources gained traction through the financing for development process. It is also being addressed by OECD and the European Commission, including through their efforts to eliminate tax havens. The fundamental purpose of taxation is to raise revenue effectively, efficiently and fairly in order to finance public goods and services for accelerating progress towards achieving the Millennium Development Goals. Today, challenges are well understood. They show a lot of commonalities across countries, despite the fact that specific country contexts have determinant impacts on tax reform.

49. Countries with a strong track record in reducing their aid dependency often have efficient tax collection systems. These are a centrepiece of their development strategy. Champions in tax mobilization are also among the best performers on development effectiveness. The value of their monthly tax collections exceeds initial investment by far.

50. Despite the potential of strengthened tax policies and administrations, only a few donors provide long-term support in this area. They usually focus on very specific areas of interest or broader reform of public financial management. Donors report mixed results of their engagement in terms of raising nominal tax revenues.

Key challenges and success factors

51. **Reforming tax systems is closely related to the political economy**. Many tax systems in developing countries are regressive, not progressive. The underlying questions of ideology and equity define the multiple challenges related to tax reform. They differ from country to country. Tax reform depends on the political will of government elites. Revenue mobilization plays a critical role in governance and increases the demands for government accountability.

52. **Tax reform is a multidimensional endeavour**. Good tax policy reform requires a system that relies primarily on broad-based taxes at moderate rates, self-assessment, tax simplification, low levels of exemptions and preferences, and a streamlined tax regime for small businesses. A good tax administration requires an integrated management structure, strong strategic planning, modernized information and technology systems and business processes. Good human resources development, a culture of customer service and strong internal audit capabilities and institutional integrity are also essential.

53. **The tax base is often extremely limited**. Many developing economies are characterized by large informal sectors and weak administrative systems and organizational capacities. Every year, the funds lost to tax evasion exceed by several times the total of official development assistance worldwide. The flight of capital, including to European countries, is common. A culture of tax exemption is prevalent in many countries. Trade liberalization can erode the tariffs that are a major source of revenue in many developing countries.

54. **Donor support remains fragmented**. The activities of different donors lack harmonization and do not adequately align to the unique requirements in individual programme countries. They concentrate on technical work (e.g., the automation of systems, the integration of tax departments and capacity-building) and rarely encourage political dialogue and advocacy. Programme countries sometimes have little control over the aid provided for tax reform or they need to coordinate with a large number of donors.

55. **Aiding tax reform should not lead to reducing aid**. Programme countries welcome the focus on using aid as a catalyst for taxation, provided that such support is secured in the long term and responds to country demands. Programme countries also voiced concerns that investing in tax systems may come at the expense of reduced official development assistance in the longer term. It was also mentioned that aid should not be tied to tax reform.

56. **Aid modalities differ**. There are no magic fixes or one-size-fits-all solutions on how aid should be invested to support tax reform. Support needs to be well coordinated among donors. It should be under the leadership of relevant national authorities, including tax authorities and ministries of finance and planning.

57. **Attracting investment can be very costly**. Developing countries provide considerable tax incentives to international companies to ensure that they invest in their infrastructure, and promote economic growth. This is understandable, given the dire need to strengthen the economic base in many developing countries. Yet, there is great scope for increasing coherence between policies related to foreign direct investment and domestic resource mobilization. Donors should take greater responsibility for this. Trade mispricing and reinvoicing by international companies are also common practices.

58. **Taxing aid money**. Aid is a major source of income for many developing countries. It was argued that it could be taxed to increase investment in areas where donors already provide budget support. On the other hand, it was noted that taxation should only apply to the economic activities of individuals and enterprises. Aid would be taxed twice, once in developing countries and once in donor countries.

Policy solutions and suggestions

59. **Long-term investment that aligns with the priorities of the programme country should be encouraged**. More long-term and demand-driven aid is needed to ensure visible improvements of national tax policies and administrations. There are many opportunities to support good practices to scale up efforts. Any donor initiative needs to address the complexity of challenges. It should steer clear of supply-driven support to avoid fragmented results. Aid for taxation should not come at the expense of official development assistance commitments. Tax reform should ensure that tax systems become more pro-poor. To eventually increase the taxable economic surplus, donors and the national Government need to place greater emphasis on creating employment, investing in productive capacity and promoting favourable and rights-based social and labour policies.

60. **Tax revenue should be spent on development**. It is vital that revenues mobilized through taxation clearly contribute to the achievement of international and national development goals. To demonstrate the positive impact of paying taxes, government services for the poor must improve. This would serve as an incentive in the long term. It is also critical to empower the poor and ensure that they are better represented in public policymaking and efforts to enhance good governance. If donors are seen as a more robust investor than the government, the incentive for paying taxes may be minimized. A focus should be placed on building social protection floors. But it is also essential to spend tax revenues in the country, including through strengthened local procurement. It would be useful to develop a common understanding of how taxation best contributes to development and of a strategy to make it happen.

61. **There is a need to strike a balance on whom to tax**. It is of course important to attempt to bring all economic activities into the formal economy, but cooperatives and other bodies providing for low-income populations should not be the primary target of taxation systems. This reduces the purchasing power of the poor. Rather, tax revenue authorities should apply a flexible approach to different segments of taxpaying populations. It was mentioned that large taxpayers, multinational companies that benefit from tax exemptions and entrepreneurs with personal relationships to tax authorities should be specific targets.

62. **The spotlight should shine on tax evasion**. In some countries, it has been useful to demonstrate how companies and other potential large taxpayers manage to avoid tax payments, even within legal parameters. Greater capacities to monitor local taxpayers through country-by-country reporting systems are much needed. Regional collaboration in this regard was also encouraged.

63. **Tax systems should be strengthened, even for countries with a low level of economic activity**. Even for countries with a limited tax base and resources, there is scope for improving tax systems and administrations. These need to be perceived as fair, predictable and steady. Greater efforts are needed to address capital flight, tax evasion and corruption. This will also make the case for increased aid packages from the provider countries.

64. **There is a need to ensure country leadership of support for taxation**. It is vital that central Governments take leadership and encourage donors to align and harmonize their efforts to support taxation. It was agreed that the policy dialogue

should focus on how strengthened revenue mobilization can be used to enhance support for the achievement of national and international development goals.

65. **Information and communications technology should be used, but more investment in human resources is needed**. Investment in online tax collection systems have helped to increase the revenue base, reduce corruption and promote a sense of duty towards tax. To be effective, these efforts must place greater emphasis on human resources capacity and management and on the training of personnel. This is also important when processes within tax administrations are becoming increasingly information technology-based. Without robust human resources in this area, development results will not materialize.

66. **Investment should be made in research in developing countries**. Research departments in tax revenue authorities act as early warning systems on the status of the national and global economy. They are also important for strategic planning on how national resources will be generated in future. Without strong research capacities, it is difficult for countries and regions to overcome shocks.

67. **There is a need to bolster the political will and strengthen the legal basis for tax reform**. It is vital to ensure that senior Government officials support tax reform. More needs to be done to reform the legislative basis for tax reform. For example, automated tax collection systems can go hand in hand with e-commerce and electronic signature laws.

68. **Coordination with donors should be improved**. Some country experiences show that coordination can be ensured among multiple donors through basket funds or by appointing a lead donor to coordinate with the Government. The donor community should further support tax reform, including through specific support, much wider public financial management programmes and mainstreaming tax-related recommendations throughout programmes and projects. Moreover, donors should try to “do no harm” so that domestic accountability relationships are not undermined.

69. **Communication within developing countries should be promoted**. Communication within different departments of revenue authorities is crucial to avoid a silo mentality in mainstreaming tax reform. Greater support should be provided to these institutions’ outreach and advocacy functions towards their multiple clients. It is also important to encourage the ministries or departments responsible for aid management and coordination to engage with national tax authorities to discuss trade-offs, for example, between trade liberalization and promoting foreign direct investment, as well as their fiscal implications. More evidence-based assessments of taxation policy need to be encouraged. Equally critical is a dialogue on capacity constraints, needs and the political economy in which tax reform takes place. This must be organized under the leadership of central Governments and with the participation of all relevant national stakeholders, including parliamentarians, civil society and the private sector.

70. **Double taxation agreements between developing countries should be promoted**. The growing number of double taxation agreements between developing countries is one of many encouraging developments in regional collaboration. Knowledge-sharing and horizontal partnerships among Southern actors have also been instrumental in tackling the global tax challenges that go beyond national borders. Initiatives to encourage cross-border collaboration should get considerable

attention by donors to help in avoiding illegal financial flows and tax evasion. More support would be needed to promote regional collaboration, for example, in the area of taxation of multinational corporations. Regional and global initiatives to reduce the illicit flight of capital should also be further strengthened.

71. **Taxation and domestic revenue mobilization should be brought into the development cooperation dialogue**. At the regional and global levels, existing initiatives — from African Tax Administration Forum to the International Tax Compact — produce valuable policy recommendations for country-level programming. It should be ensured that such initiatives do not duplicate efforts. They should be built upon to promote a shift from a focus on the expenditure side to a focus on the revenue side in development cooperation. They should become an integral part of discussions on effective development cooperation.

72. **Indicators for measuring progress in domestic resource mobilization should be developed**. Indicators for effective domestic resource mobilization should be developed jointly by Governments. They should go beyond mere performance criteria, such as the ratio of taxes to gross domestic product, since tax authorities have limited influence on this kind of benchmark. Taxation should become an integral component of public financial management support from donors and of expenditure planning processes at the country level. The Development Cooperation Forum was viewed as a strategic place to further explore this and facilitate a debate in future.

D. Using aid to catalyse foreign direct investment entails both opportunities and risks

73. This session discussed how aid could be used most effectively to mobilize the kind of private investment, especially foreign direct investment, which contributes to poverty reduction and inclusive growth. Panellists from Afghanistan, the Turkish International Cooperation and Development Agency, and the European NGO Confederation for Relief and Development (CONCORD) made short presentations, followed by interactive discussions.

Background

74. Development financing is becoming increasingly diverse and complex, forcing a re-evaluation of the role of aid vis-à-vis other sources of development financing. There is a growing consensus that public expenditures funded by aid alone cannot be sustainable. Private investment, both external and domestic, is critical to expanding the revenue base of developing countries. This is essential to assure their financial independence and policy space. Developing countries, however, face considerable challenges in attracting sufficient private investment. Ensuring that private investment flows contribute to achieving national development objectives, such as job creation, sustainable growth and poverty eradication, is even more difficult. These challenges can be more effectively addressed if aid is provided and used effectively to attract foreign direct investment and other private investment that promote development in developing countries.

Key challenges and lessons learned

75. The discussions reiterated the risks and opportunities associated with the use of foreign direct investment to promote development, as learned from the experience of the past 30 to 40 years. Participants shared views on how to use aid as a tool to channel foreign direct investment towards the achievement of national development objectives.

76. **Private investment is guided by the logic of profit, which might not be conducive to achieving national development objectives**. The risks associated with private investment for development are well known. Foreign direct investment has often crowded out the domestic private sector in host countries, with a negative impact on economic growth and development opportunities. Aid strategies need to include incentives to attract private investment in developing countries while remaining consistent with the objective of strengthening the national economy and national development goals for job creation, poverty eradication and inclusive growth. This is especially important in the least developed countries, which are highly dependent on foreign direct investment for economic growth, given the low productivity of their private sector.

77. **Attracting foreign direct investment to developing countries requires reducing/mitigating risks and costs for private investors**. Aid can be used to mitigate risks and help to reduce costs for private investors. This can be done by sharing the costs of investing in developing countries and helping to support access to skilled labour, infrastructure, improved business environment and trade facilitation. There is, however, a need to ensure that using official development assistance as a catalyst for foreign direct investment does not become a way to subsidize such investment at the expense of the host country's development sector. There are indeed other ways to reduce investor risks in developing countries. Multilateral development banks, for example, can help to fill the gap left by commercial banks in supporting investment in small and medium-sized enterprises. This, however, might require additional capital and guarantees from stakeholders as well as other forms of risk mitigation. Those may include various forms of support to improve the business environment and trade facilitation in the context of aid for trade. Such measures are important for enabling the multilateral development banks to absorb greater risks and play this role.

78. **Private-public partnerships aimed at promoting foreign direct investment in programme countries might be another form of tied aid**. There is some evidence indicating that donor countries financing private-public programmes in developing countries also tend to involve their own private firms in the implementation of these programmes. Using aid as a catalyst for foreign direct investment might thus become another way to tie aid to the use of specific firms from the donor countries. Supporting national private investment as opposed to foreign direct investment might be more effective in promoting national development and be more sustainable in the long run.

79. **There is a need to promote private investment as a whole, not only foreign direct investment**. Foreign direct investment is only one component of private investment. Although such investment has increased over the years, foreign investors are still wary of investing in developing countries, particularly in the least developed countries. The public sector thus needs to step in to facilitate private investment as a whole, both external and domestic, in developing countries and

ensure that it leads to greater job opportunities and improved livelihoods. The role of aid, in particular, should be to leverage other types of financial flows that could have a greater impact on these objectives. This could be done by supporting a stronger overall investment climate in programme countries, which can attract all kinds of investment.

80. **Expanding the role of private sector is not a guarantee of inclusive economic growth and poverty eradication**. Some 30 per cent of current official development assistance continues to be directed to private sector and infrastructure development. It was, however, said that the past 30 years have shown that private sector development does not necessarily lead to poverty eradication. This is demonstrated by the fact that 75 per cent of the poor lives in middle-income countries. Directing official development assistance to private sector development away from the health and education sectors can be justified only if it contributes to sustainable and inclusive growth, job creation and poverty eradication.

Proposals for aid as a catalyst of foreign direct investment

81. **The emergence of local entrepreneurship should be promoted**. Aid would have a greater impact by investing in people, in particular women and girls. This is a dimension that is generally missing in the discussion on public finance. Private sector development and social dimensions should be pursued at the same time as they are interconnected with the dimensions of people’s productive life.

82. **Specific incentives should be provided for private investors to invest in local and national productive activities in developing countries**. Aid should contribute to improve the business climate of programme countries by promoting market access, availability of skilled labour and land. In the current climate, this is particularly urgent, as the role of the private sector in development cooperation is bound to increase.

83. **The transfer of knowledge and technology should be facilitated**. A proper regulatory framework for foreign direct investment would need to be developed to enable transfer of knowledge and technology. Aid should be used to develop national capacity to formulate such a framework. For example, official development assistance could support the formulation of appropriate tax levels and rates as well as environmental, labour and social standards. It could also support national capacity to define and negotiate countries’ own conditions for regulating foreign direct investment and thus maximize their impact in the economy.

84. **Development-oriented trade policies should be promoted**. Developing countries’ access to and acquisition of technology is constrained by international and bilateral trade rules. The trade policies of donor countries should ensure that foreign direct investment facilitates the transfer of technology. There is also a need for international regimes (trade and property rights regimes) to allow the least developed countries to establish their own conditions for the emergence and evolution of a domestic private sector.

85. **The sustainability of private investment should be encouraged**. Grant-related investments should have an exit strategy in case investment is profitable.

86. **Accountability and transparency should be fostered**. There should be regular, country-level reviews of the total net impact of foreign direct investment on the economy of partner countries so as to enable comparisons with other, more broad-

based forms of investment. Such reviews should include all relevant stakeholders, including civil society and parliaments. Ensuring greater information and transparency on how foreign direct investment will be managed is also important. Such conditions should be met before aid is used to promote foreign direct investment.

E. Capacity-building is needed to promote more coherent management and use of financing at the country level

87. This session discussed ways of managing various financial flows so that they jointly contribute to development results. In general, coordinating aid and non-aid flows was seen as particularly challenging, given the lack of capacity in recipient countries, the shortage in coordination in both giving and receiving countries and the diverse incentives governing such flows.

88. Panellists from Uganda, IMF and Belgium made short presentations, followed by interaction discussions.

Background

89. Developing countries receive financing from multiple sources. These flows are of a different nature. Financing modalities are increasingly diverse. Ensuring that all external and domestic resources work together in contributing to national development objectives remains a persistent challenge for all developing countries.

90. Different sources of finance do not necessarily share common motives, interests, objectives and priorities. Aid is often driven by foreign policy objectives. The priorities of investors range widely. Developing countries are ill-positioned to negotiate with donors or investors. In practice, there has been little experience-sharing and discussion in this area.

Key challenges

91. **Flows from various sources are governed differently**. Bilateral, multilateral and new state actors, non-state actors and vertical funds all have their own institutional setups, authority arrangements, relationships between headquarters and the field, and different sets of strengths and weaknesses.

92. **The objectives and purposes of actors are diverse**. Funding directed at specific sectors focuses on one area and may not be necessarily aligned with national priorities. Private funding is profit-oriented, which requires regulatory frameworks and clear tax schedules.

93. **The modalities of development financing are becoming increasingly diverse**. Combining general budget support, sector-wide approaches, debt, innovative financing and non-financial flows (e.g., technical assistance) in one framework is a complex task.

94. **Time frames are not necessarily in sync**. Different funding sources follow different time frames. Development funding works with budget cycles. This is not necessarily the case for non-development funding.

95. **Governance structures in donor and recipient countries are not conducive to coherent management of flows**. In the area of aid, good mutual accountability mechanisms at the country level can facilitate the participation of development

partners, but when it comes to coordinating flows beyond aid, other authorities need to be engaged. However, there is a lack of dialogue in donor countries and development cooperation ministries and there are rarely any discussions beyond aid flows with other authorities. The same applies to recipient countries.

96. **Progress in the coordination of aid is modest at best**. Aid dynamics have changed as actors in and outside the aid effectiveness agenda have entered the development cooperation landscape. Aid is not well coordinated or aligned with national priorities. In country, actors are not informed of each other's activities in the same sector. There is a tendency for each to pursue its own agenda. Uncoordinated country missions are an example of lack of coordination. The division of labour among donors has not made sufficient progress. In certain cases, it has led donors to withdraw from certain sectors.

97. **A real-time "snapshot" of donor activities is lacking**. What donors do and plan to do usually remains obscure to recipient countries, which makes coordination impossible. When these become known, the politics may have already changed and priorities may have shifted.

98. **There is a shortage of funding for coordination**. Setting up coordination frameworks, mechanisms and plans entails costs. However, there are cases where the commitment to fulfil these requirements is not matched by financial support.

Lessons learned and solutions

99. **Partnership policies/frameworks/country compacts should be established**. Coherence needs broad frameworks. Development priorities need to be defined by the framework, against competing demands. The partnership policy of Uganda has set an example. In 2009, Uganda set up a policy coordination framework, which is used to assess the performance of all partners. The framework includes indicators such as budget support, policy coordination, untying of aid, joint mission, transparency as well as indicators for the programme country Government in line with the principles of value for money and transparency. The framework stresses the importance of a beyond-aid strategy, combining subsidies, trade, market access and technology. Stakeholders work together to ensure that the framework achieves results. Among other benefits, the partnership policy can bring greater benefits from financial flows and the reduction of transaction costs.

100. **National development strategies should become multifaceted**. National development strategies must consider how the country can manage different flows, and where the gaps are. This has to be based on an understanding of what is available and of the associated terms/conditions, time frames, predictability and level of alignment with strategic objectives. This can lead to offsetting of institutions and mutual accountability and performance mechanisms. Ultimately, the strategy has to ensure that all actors work together around it and use a national system but without much management. An exit strategy is also essential. Coordination around the strategy must open a space for NGOs and the private sector. Both may not be brought to the table on the same terms.

101. **The recipient countries should be allowed to set the rules of the game**. When the framework is in place, all actors should be engaged. If certain actors prefer business as usual, the recipient countries should be empowered to say no. Real dialogue usually takes place in sector groups where the leadership of the

Government is more easily exercised. On the other hand, both donors and programme countries should do their jobs right. Programme countries should ensure that their policies are not contrary to their development objectives.

102. **The capacity of recipient country Governments should be strengthened**. Setting up and managing policy frameworks requires dedicated institutions/agencies and upgrading the skills of personnel, which in some cases recipient countries alone cannot do owing to a lack of capacity. Resources are also needed to manage, collect, process and communicate information. Sound public financial system is also critical. The limitations in capacity have been underestimated in the past and should be readdressed as a priority.

103. **The division of labour should be accelerated**. The European Union has encouraged its members to focus on three sectors. For example, Luxembourg decided to exit from certain sectors in some countries and focus on fewer areas. Such experiences should be widely shared.

104. **Budget support should be prioritized**. Donors should work towards a single contract with the Government. If budget support is not applicable, using national systems is the minimum requirement. Vertical funds should be used with caution, as they can distort budgets. Loans should be managed more carefully to minimize impacts on future budgets.

105. **Aid should be used to leverage private resources**. A majority of the poor now live in middle-income countries and this trend will continue. Aid itself cannot meet such significant demands unless it leverages other flows. There is a clear change in official development assistance priorities. It was said that such assistance should be used to create an enabling environment and conditions for inclusive growth. This strengthened link will make possible the coherent management of flows.

F. Mutual accountability is increasingly seen as critical to maximizing aid results

106. This session identified recent trends in mutual accountability. It explored ways of including relevant actors in national and sector-level reviews of aid policies and in the definition and review of targets on aid quality. The ultimate objective of such change was seen to be twofold: to enhance the impact of aid and hold donors to account for their aid commitments.

107. The United Republic of Tanzania, Togo, the European Commission and the IBON Foundation/BetterAid presented their views and this was followed by an interactive debate.

Background

108. Mutual accountability between developing countries and providers is gaining momentum. It is a means of overseeing the effectiveness of development cooperation on the ground. It should be rolled out universally, while being specific to country priorities. It should build on the democratic systems of countries and respect parliamentary oversight and civil society engagement. Mutual accountability should apply to development results. Those should be defined on the basis of national priorities. They should be assessed against national priorities and internationally agreed principles, as agreed among all stakeholders.

109. In recent years, few countries have made progress in developing effective mutual accountability mechanisms that involve all relevant actors. It is well recognized that an integral part of these mechanisms are aid policies and performance assessment frameworks with individual targets, high-level multi-stakeholder platforms, and accessible databases on aid. Currently, 55 surveyed developing countries have no aid policy document.

110. Accountability mechanisms are more efficient if they focus on priority sectors chosen by the programme countries. Existing performance assessment frameworks should be used to review progress on a limited number of agreed, locally adapted targets on development effectiveness. Particularly useful are targets defined for individual providers. Performance assessment frameworks should be tailored to country contexts. They should be based on multi-stakeholder consultations, with governments in the lead. Political momentum on the ground should be strengthened. All actors should be effectively involved under country leadership.

111. At the global level, it was felt that a light structure should monitor progress independently. As a universal platform fostering multi-stakeholder consultations, the Development Cooperation Forum is an important global apex body for mutual accountability.

Key challenges to make mutual accountability work

112. **Alignment with key country priorities**. Aid policies need to build on national development strategies. In this way, they will be embedded in a framework that responds to domestic, national and international commitments and standards. This will also ensure greater country ownership and avoid interference when multiple actors engage in mutual accountability.

113. **Capacity challenges**. At the same time, Governments often quote the lack of national capacity as a key hindrance to further engagement in mutual accountability. This applies especially to countries in transition or relief from conflict. A major injection of resources is needed to: (a) scale up national information systems and databases in order to provide timely aid information relevant for national planning purposes; (b) invest in monitoring and evaluation capacity in order to root mutual accountability in a meaningful evidence base; and (c) strengthen country leadership to analyse policy documents and negotiate change. Ensuring that aid documents and review processes are owned by all stakeholders is time-consuming and requires costly consultations and training.

114. **Creating accountability relationships in programme countries**. In some cases, the lack of domestic accountability from Governments to their own citizens is a major limitation in establishing a culture of accountability. Parliamentarians and civil society organizations are usually not adequately involved in overseeing aid management, coordination and delivery. Greater authority should be granted to them. Also important is closer engagement with local governments and the supreme audit institutions as well as with the media. These are vital to creating an enabling environment based on good governance. The accountability of civil society organizations as providers of development cooperation is of particular concern to governments, despite existing standards and codes of conduct at the regional and global levels.

115. **Coordination of providers on the ground**. The limited coordination and coherence of providers at the country level is a concern. Mutual accountability mechanisms can help to promote donor coordination, which in turn can make aid relationships more balanced. It was noted that donors sometimes do not agree on targets against which developing countries should report. Without the increased coherence of donors' approaches at the country level, developing countries will not be able to hold donors to account and simplify their accountability and reporting to donors.

116. **Overly complex and unfocused reporting**. The number of indicators used to assess the development policy of programme countries as part of the mutual accountability mechanisms for aid is excessive and needs to be reduced. They should be tailored to focus more on relevant development outcomes, rather on than inputs and outputs.

117. **Broadening the tent**. A special challenge is to ensure that mutual accountability deliberations include development partners beyond those that provide general budget support. At the national level, those — including non-Development Assistance Committee donors and the private sector — should be encouraged to voluntarily engage in mutual accountability and report on their specific development cooperation activities. This may include signing agreements with the central Government and other donors. The dual characteristics of middle-income countries as providers and recipients of development cooperation would need to be reflected in these agreements. At the sectoral level, sector-wide approaches should involve all relevant government entities, bilateral and multilateral development partners, civil society organizations and the private sector.

118. **Addressing other financing for development**. Aid covers an increasingly limited portion of development finance. Donors are not held accountable on issues beyond aid, notably on those that affect development, such as trade, investment or debt relief policies.

Policy solutions and suggestions from the debate

119. **Holistic and country-specific reforms are needed to enhance mutual accountability**. Mutual accountability should not be only a technical dialogue. Instead, it should be part of a broader discussion of the delivery of results and the impact of aid. Reform should aim to put practitioners in the lead. Also important is to focus on a manageable set of indicators for all actors. Such indicators should build on guidance from global processes. The dialogue on global policy should also be energized to refine the roles of different actors in holding providers and governments to account on promises made.

120. **Such reforms should be driven by a strategic and inclusive vision**. It was said that a globally representative coalition of actors should work together post-Busan to draw up a strategic plan. The purpose would be to ensure that mutual accountability mechanisms become an integral part of results-oriented development planning at the country level. This should entail suggestions to promote mutual accountability and identify ways of disclosing relevant aid information. Donors need to support this process.

121. **Challenges should be identified on the basis of evidence**. A more thorough analysis of the political economy of individual countries and their status in mutual

accountability may be useful in evaluating why progress is minimal in some contexts. It would also help to identify which countries could be prioritized.

122. **It is not necessary to reinvent the wheel**. The creation of new mutual accountability mechanisms should be avoided in countries where elements of mutual accountability (policies, dialogue structures, etc.) already exist. The national development strategy should be at the centre of reform to improve existing policies and meetings/governance structures. This is important in framing a government-led dialogue with providers. Reform should also help establish a strong link between domestic accountability to citizens and mutual accountability between government and providers. It is critical to ensure that lessons learned and challenges are regularly reviewed at the global level. Global review mechanisms and independent reports are critical in this regard.

123. **Lessons can be learned from specific sectors**. In some countries, mutual accountability mechanisms at the sector, subsector and programme levels have had considerable impact on development results. They adopt a ‘‘business-like’’ approach and are more evidence driven. They thus provide incentives for governments to take the lead. At this level, it is meaningful to involve informed practitioners from providers, local governments, parliamentarians and civil society organizations. Some of these actors are answerable only at this level. Fundamental accountability relationships should be nurtured at the local level. For example, local public hearings also have a strong impact on domestic accountability. Such assessments are most efficient when they ask what works and what does not work to promote accountability. They would, however, need to feed into higher levels of coordination. This will help to ensure that they have a long-term impact on development planning and the overall policy framework of the central Government.

124. **Political buy-in must be bolstered**. Mutual accountability is inherently political. A two-pronged approach in pursuing mutual accountability reviews has been effective in yielding meaningful results. It should consist of an inclusive high-level political debate on the progress and effectiveness of development efforts and informed policy dialogue among practitioners to identify solutions to remaining challenges.

125. **A link should be established with supranational structures to strengthen behavioural change**. At the regional and global levels, dialogue structures need to be truly inclusive as well. They should not duplicate each other (see also the extensive recommendations on this issue from the Expert Group Meeting on International Mutual Accountability). Lessons can be learned from the format of the Cotonou Agreement and from the African Union.

126. **Good practices should be shared**. There are a number of good practices in building capacity in the area of statistics, promoting the open engagement of civil society and strengthening budget and programme monitoring and policy evaluation by parliaments. An exchange of experiences can help to replicate and expand them, where feasible. Parliamentary networks should be better used to promote exchange on accountability for results. Active local governments should act as champions and encourage other local authorities to engage in mutual accountability.

127. **Issues beyond aid should be addressed**. Country-level mutual accountability systems should review incoming financing flows beyond aid. It would be useful to negotiate indicators that focus on the contribution aid can make towards more

effective development cooperation. National monitoring and evaluation systems need to be scaled up and strengthened, as they can generate evidence for meaningful mutual accountability. Also, donor representatives should have greater capacity and authority to discuss beyond aid issues and policy coherence. National forums should increasingly discuss the role of aid as a catalyst for other development financing.

128. **Lessons can be learned from South-South exchanges**. Peer learning at country and regional level will be critical in the coming years. So far, structured South-South exchanges of lessons learned among developing countries have been effective in improving mutual accountability processes. They help to strengthen national ownership of the mutual accountability agenda and to build capacities at the country level in a cost-effective and results-oriented way.