



Institute of Development Policy and Management (IDPM)

A critical look at the new aid paradigm

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Outline

- A. A critical look at the new aid paradigm
- B. The political assumptions behind the PRSP
- C. Balancing the aid portfolio
- D. Is small beautiful, or just embarrassing?

A1. The new aid paradigm

- A remarkable shift in donor thinking
 - since around 2000
 - more than just a fashion
- With solid foundations
 - research has fuelled the breakthrough
 - but the scientific basis is not as solid as is claimed
 - and the consensus is not as profound as it looks

A2. Key elements in the new aid paradigm

Aid has failed in low-income, aid-dependent countries \Rightarrow a new approach is in order

- Lessons drawn with regard to the recipient side
 - Commitment to development & poverty reduction
 - \Rightarrow ownership
 - State capacity to formulate/plan/implement
 - \Rightarrow politics and institutions matter
 - Transparent use of resources
 - \Rightarrow accountability mechanisms
 - Civil society as facilitator for all the above
- Lessons drawn with regard to aid agencies
 - Selectivity
 - Alignment & Harmonization
 - Using programme based approaches (PBAs)

Poverty reduction is the overarching objective

A3. Some areas of concern

- Woolliness of key concepts
 - partnership, ownership, civil society participation, governance, transaction costs ...
- On the side of recipient countries: political realities
 - weak and fragile states, poor governance, instability...
 - versus PRSP
 - one-size-fits-all
 - modeled on development state with strong governance
- On the side of donors:
 - the bureaucratic dilemma:
 - excessive number of implementing donor agencies
 - harmonization is limited
 - the political dilemma:
 - will donors agree on fundamentals, and act on them?
 - selectivity is not really applied

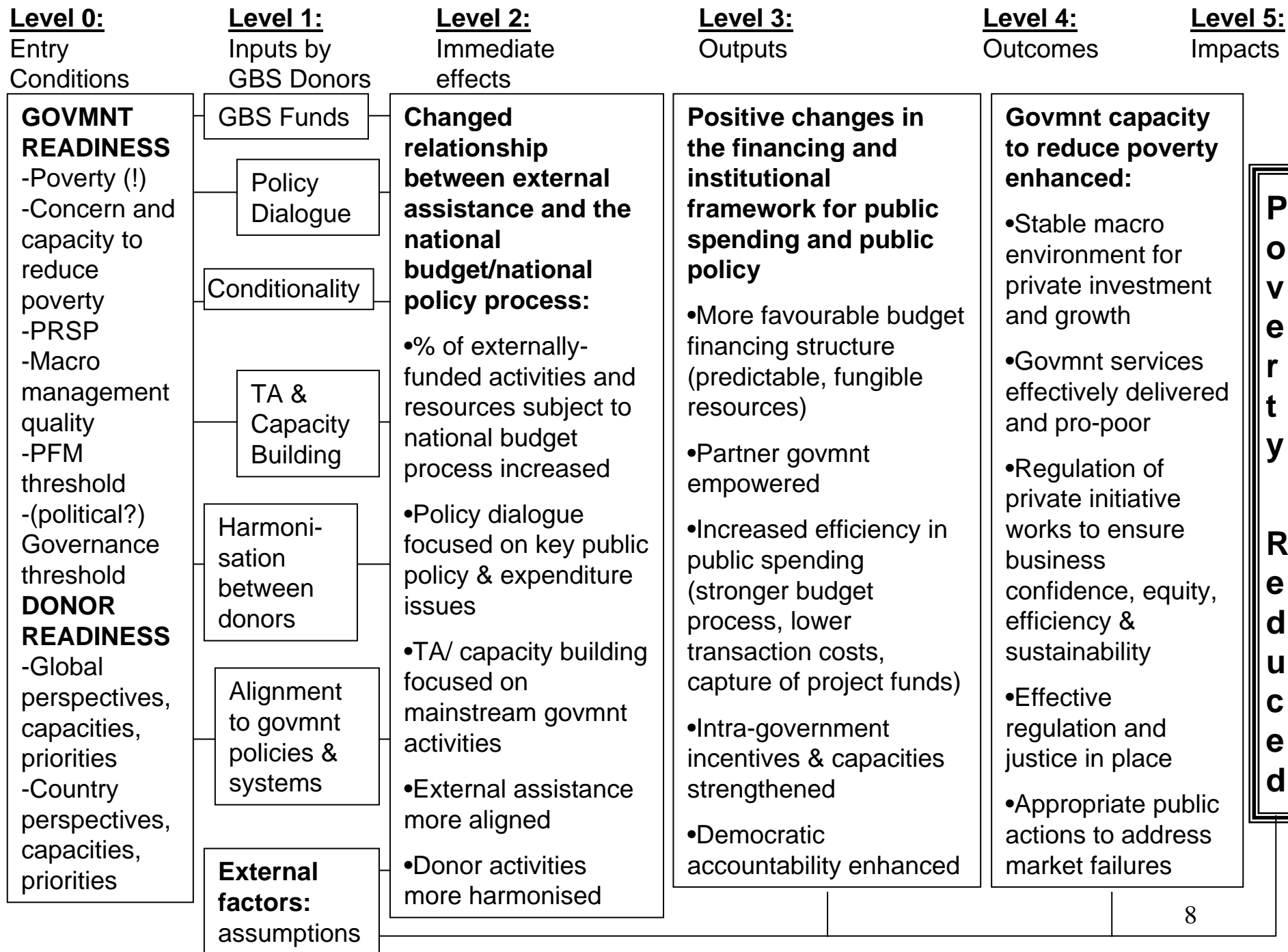
A4. Areas of (latent) donor disagreement

- Democracy versus development
- PRSP versus MDGs
- Soft policy dialogue versus tough conditionality

B1. The external political assumptions behind the PRSP

General Budget Support

- = the flagship of the new aid modalities
- a good place to test the new aid paradigm
- See external factors (assumptions) in logic model used in recent evaluations (Lawson et al. 2005)



B2. A summary of political assumptions behind GBS

- Government is genuinely committed to
 - pro-poor policy reform
 - sound public expenditure management
 - a strong and autonomous civil service
- Government therefore moves away from
 - using state resources for patronage and personal graft
 - condoning and actively practicing corruption
 - staying in power at all cost
- This is facilitated by
 - an increasing role of parliament
 - the existence of a vigorous civil society
 - a broad consensus on the political model and development strategies

JUST KIDDING ?

C1. Role of donor-funded projects

- Aid instrument for donor laggards?

OR

- Default aid instrument when budget support is not possible?

OR

- Essential part of a well-balanced portfolio?

C2. Much of the criticism of projects is valid

- Donor-driven decision-making
- Institutional chaos of separate PIUs
- Excessive transaction costs
- Inability to address crucial political and institutional constraints
- Fungibility makes project-level accountability illusory

C3. Yet the evidence against projects is not so clear-cut

- Not all projects are fully fungible
 - depends on the type of project
 - depends on degree of aid dependence
- Empirical evidence suggests that aid (including projects) did work even in difficult policy environments
- Micro-level studies also suggest that donor inputs in projects matter

C4. Moreover ‘new-style’ projects can and should avoid the pitfalls of the past

- Projects can be nationally owned as much as PRSPs
- Projects can be aligned as much as budget support
- Now that national policy and institutional issues are better addressed, projects should give much better results

C5. Finally non-fully aligned projects may make sense in more countries than the new aid discourse suggests

- Because the external political assumptions are often not fulfilled (see above)
- Donors partly acknowledge this by a special treatment for ‘fragile states’
- But a threefold distinction may be more realistic, as suggested by Radelet (2005)
- Implying much more room for donor involvement in projects

Table 2. Three strategies for aid modalities and country governance

Aid modality	Good governance	Average governance	Weak governance
Amount of funding	Large	Average	Small
Responsibility for setting priorities and designing projects and programs	Mostly with recipients (country ownership)	Combined donor and recipient	Mostly with donors
Program or project funding	Mainly program and budget support	Primarily projects, but some program and budget support	Almost entirely projects
Breadth of funded activities	Broad—support full poverty reduction and development strategy	Moderate—support areas with most promise for progress	Narrow—look for specific opportunities where some progress is possible; focus on humanitarian relief and providing basic services
Degree of donor flexibility	Most flexible	Limited flexibility	Very little flexibility
Recipients	Mostly government, with some to NGOs and private sector	Mix of government, NGO, and private sector	Larger share to NGOs, with some to governments
Length of donor commitment	Long (5 years or more)	Moderate (3–5 years)	Short (1 year)
Monitoring and evaluation	Strong monitoring and evaluation with good baseline data; primarily focus on outputs and outcomes	Strong monitoring and evaluation with good baseline data; focus on inputs as well as outputs and outcomes	Strong monitoring and evaluation with good baseline data; very tight oversight and regular re-appraisal

source: Radelet (2005)

C6. Projects therefore have a place in a donor portfolio

- In particular, projects allow to address genuine bottlenecks at sub-sector levels
- They are very complementary to sub-sector or sector programme based approaches

D1. Small donors have international obligations just as much as big ones

- Development is a collective good, and small donors must share in the effort
- However, some argue that under the new approach to aid small donors should ‘stay out of the kitchen’
 - by funding multilaterally
 - by participating mainly as silent partners

D2. An active role of small donors is however justified if they specialize

- in HOW they intervene
 - = the lower range of the aid instruments: ‘new-style’ projects, subsectors and sectors
- in WHERE they intervene
 - = geographical concentration
- in WHAT they intervene in
 - = sector concentration (health,)
 - = thematic concentration (conflict resolution, ...)

Suggested bibliography

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