



# The Role of Smaller States in an Emerging New Aid Architecture

Harmonisation and Alignment – Challenges for New  
and Old Donors Alike

Austrian Development Agency

Vienna, 24-25 November 2005

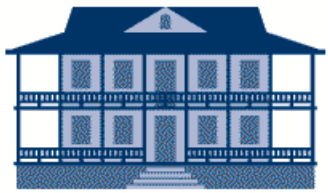




Do Harmonisation and Alignment (H&A)  
raise particular challenges for small as  
opposed to large donors ?

And what is the link with the New Aid  
Architecture ?





# 2005 Paris Declaration on Aid Effectiveness

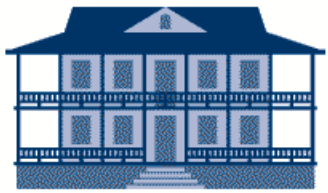
12 progress indicators



9 related to donors

3 related to recipients

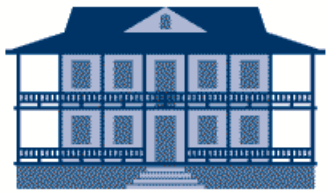




## **Nine donor-related progress indicators**

3. Aid flows reported on budget
4. TA co-ordinated
- 5b. National systems used
6. Parallel PIUs avoided
7. Aid delivered on time
8. Aid untied
9. Programme-Based Approaches (PBAs) used
10. Donor missions and analytical work pooled
12. Mutual accountability assessments in place





## Characteristics of PBAs

- Country leadership
- Single comprehensive programme and budget framework
- Formal donor co-ordination and harmonisation
- Efforts to use local planning, implementation, financial management, M&E



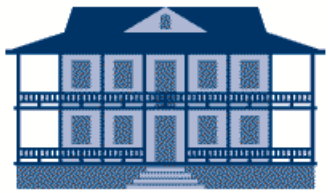


## Importance of PBAs

(billion \$, 2004, 34 countries)

PBAs	Budget support	Sector support	Other PBAs	Total
Numerator (aid in form of PBAs)	\$3.36	\$3.94	\$0.13	\$7.44
Denominator (total aid)	\$17.43	\$17.43	\$17.43	\$17.43
Indicator	19%	23%	1%	43%
Target for 2010				66%

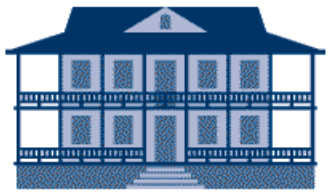




## So far so good...

- except that, in reality, the New Aid Architecture has a strong bias in favour of general budget support
- and that the role of small donors is not quite clear



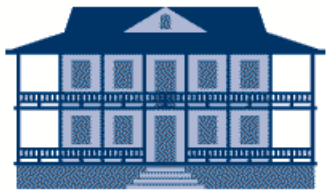


## Aid Paradigms

<b>period</b>	<b>preferred aid instrument</b>	<b>major constraints addressed</b>	<b>small donors</b>
1960-1980	projects	- physical capital - human capital	☺
1980-2000	structural adjustment support	- macroeconomic policies	☹
2000-	budget support	- ownership - governance	?







# Comparison of project aid and budget support

The essence of project aid  
=  
micro-level earmarking



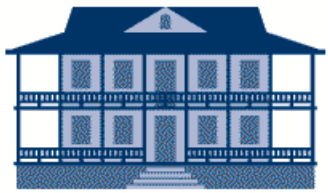


## A typical simple logic model for a project

Impact	<ul style="list-style-type: none"><li>•Reduce mortality rates for children under 5 years old</li></ul>
Outcome	<ul style="list-style-type: none"><li>•Improved use of ORT for managing childhood diarrhea</li></ul>
Intermediate outcomes	<ul style="list-style-type: none"><li>•Increased maternal knowledge of ORT services</li><li>•Increased access to ORT services</li></ul>
Outputs	<ul style="list-style-type: none"><li>•15 media campaigns completed</li><li>•100 professionals trained in ORT</li></ul>
Activities	<ul style="list-style-type: none"><li>•Launch media campaign to educate mothers</li><li>•Train health professionals in ORT</li></ul>
Inputs	<ul style="list-style-type: none"><li>•Trainers</li><li>•ORT supplies</li><li>•Funds</li></ul>

Source: Kusek et al. (2005)





## Relative strengths and weaknesses of project aid

### Strengths

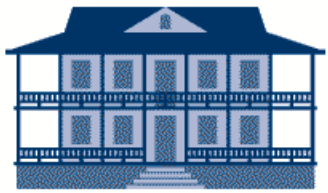
- Allows addressing genuine poverty issues at local level
- Even in absence of a 'development state'
- Relatively simple for donor agency to manage and supervise
- High donor commitment
- High donor accountability
- Room for large number of donors

### Weaknesses\*

- Weak national ownership (donor-driven priority setting)
- High recipient transaction costs
- Institutional undermining of public sector
- Fungibility (WYS≠WYG)

\* *especially relevant for aid-dependent countries*

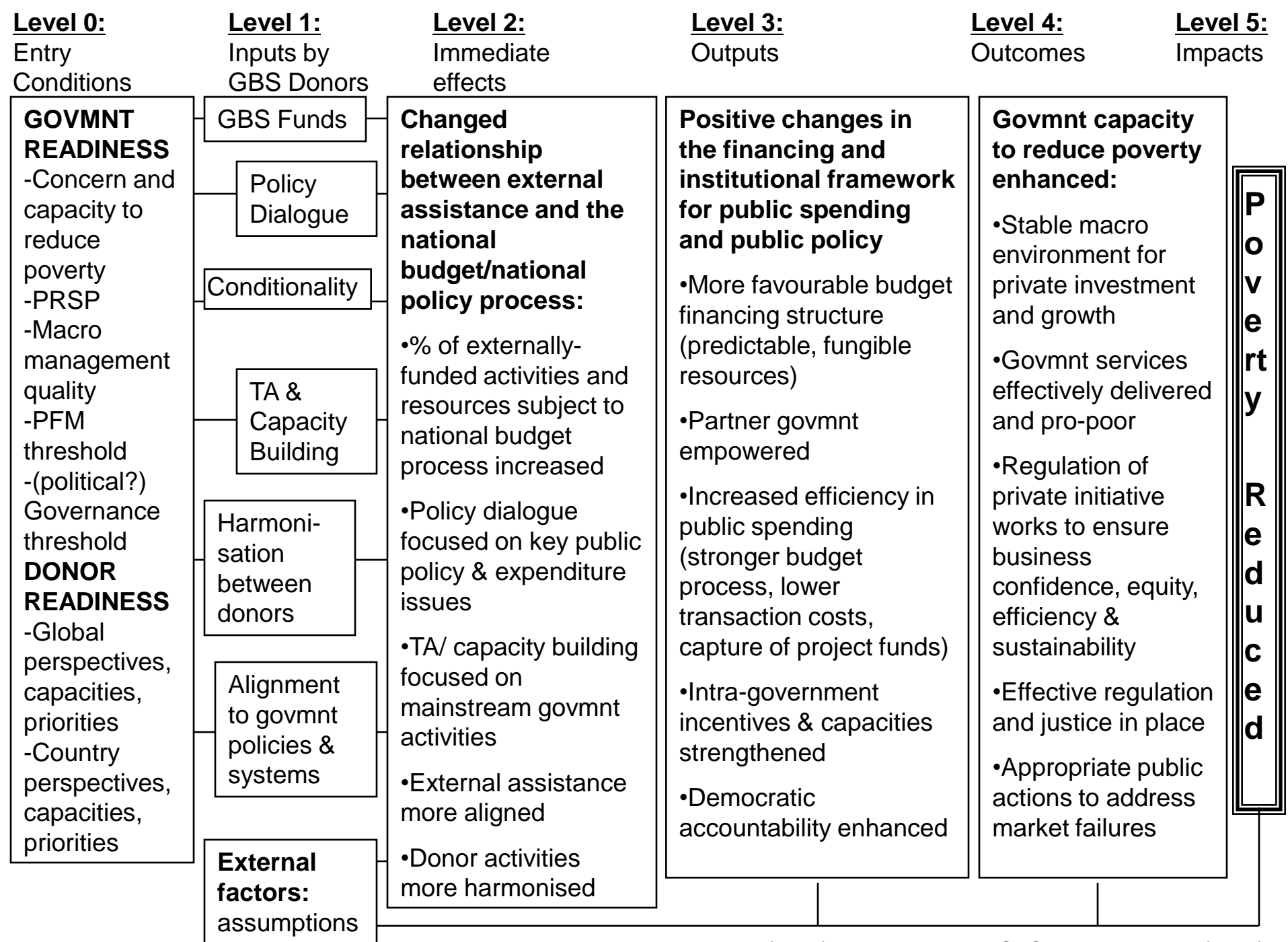


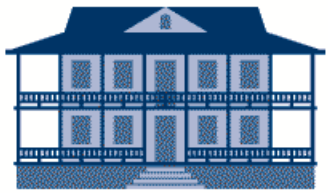


## The essence of budget support = intentional fungibility

- Different logic model, emphasizing:
  - government ownership
  - results-based contract with the donor community
  - policy dialogue
  - new conditionalities
    - selectivity
    - process conditionality
    - ex-post conditionality
- With the ultimate goal of improving the capacity of the public sector to address poverty







## Relative strengths and weaknesses of budget support

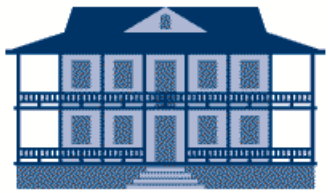
### Strengths

- National ownership
- Institutional strengthening of PFM
- Lower recipient transaction costs

### Weaknesses

- Fiduciary risk
- Evaluability
- Strenuous donor co-ordination in matters of policy dialogue and conditionality

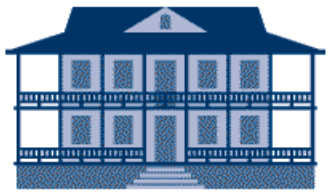




## The role of small donors ?(orthodox view)

- Development is a collective good, and small donors must share in the effort ('acquis communautaire' for new EU members)
- Budget support is the preferred instrument for all donors
- However, in providing budget support, small donors should 'stay out of the kitchen', e.g.
  - fund multilaterally
  - participate mainly as silent partners
- They must stick to being donors, and avoid getting too much involved as aid deliverers





A more active role of small donors is however fully justified provided they specialize

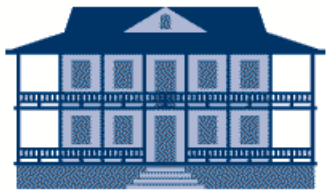
in **WHERE** they intervene (**orthodox**)  
= geographical concentration

in **WHAT** they intervene in (**orthodox**)  
= sector concentration (health, ....)  
= thematic concentration (conflict resolution, ...)

in **HOW** they intervene (**heterodox**)  
= the lower range of the aid instruments: 'new-style' projects, subsectors and sectors







## Role of donor-funded projects ?

- Aid instrument for donor laggards? (**orthodox**)  
OR
- Default aid instrument when budget support is not possible? (**orthodox**)  
OR
- Essential part of a well-balanced multi-donor portfolio? (**heterodox**)



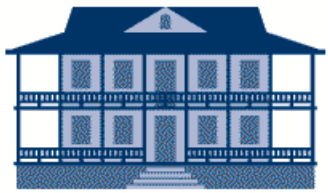


Most of the arguments against traditional projects are valid

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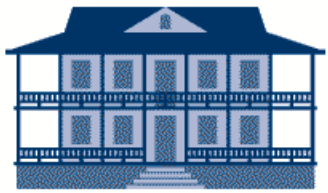
yet the criticism against project aid as an aid modality is taken too far





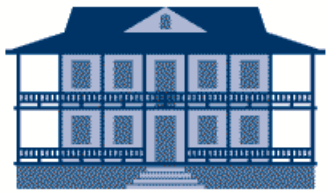
1. Micro-level studies suggest that donor inputs in projects matter
2. Empirical evidence suggests that aid (mostly projects) does work even in difficult policy environments
3. Not all projects are fully fungible
  - depends on the type of project
  - depends on degree of aid dependence





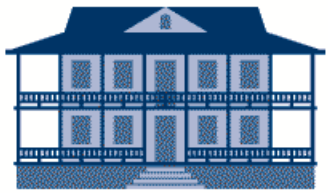
4. 'New style' projects can avoid some of the pitfalls of the past
5. Now that national policy and institutional issues are better addressed, projects should give much better results
6. In addition, projects allow to address genuine bottlenecks at sub-sector levels





7. Finally non-fully aligned projects may make sense in more countries than the new aid discourse suggests because countries do not satisfy the minimum requirements (**heterodox**)





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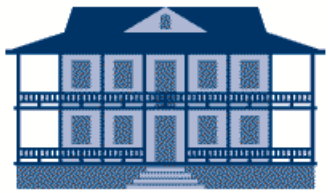
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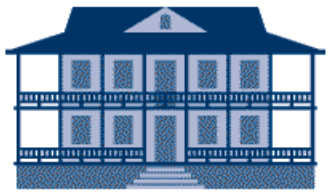




## Three recipient-related progress indicators

1. Operational development strategies
2. Reliable PFM systems
2. Reliable procurement systems
11. Results-oriented frameworks





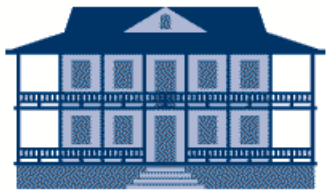
## Three recipient-related progress indicators

(with indicative base-line data for good scores)

1. Operational development strategies (9%)
2. Reliable PFM systems (33%)
2. Reliable procurement systems (36%)
11. Results-oriented frameworks (4%)







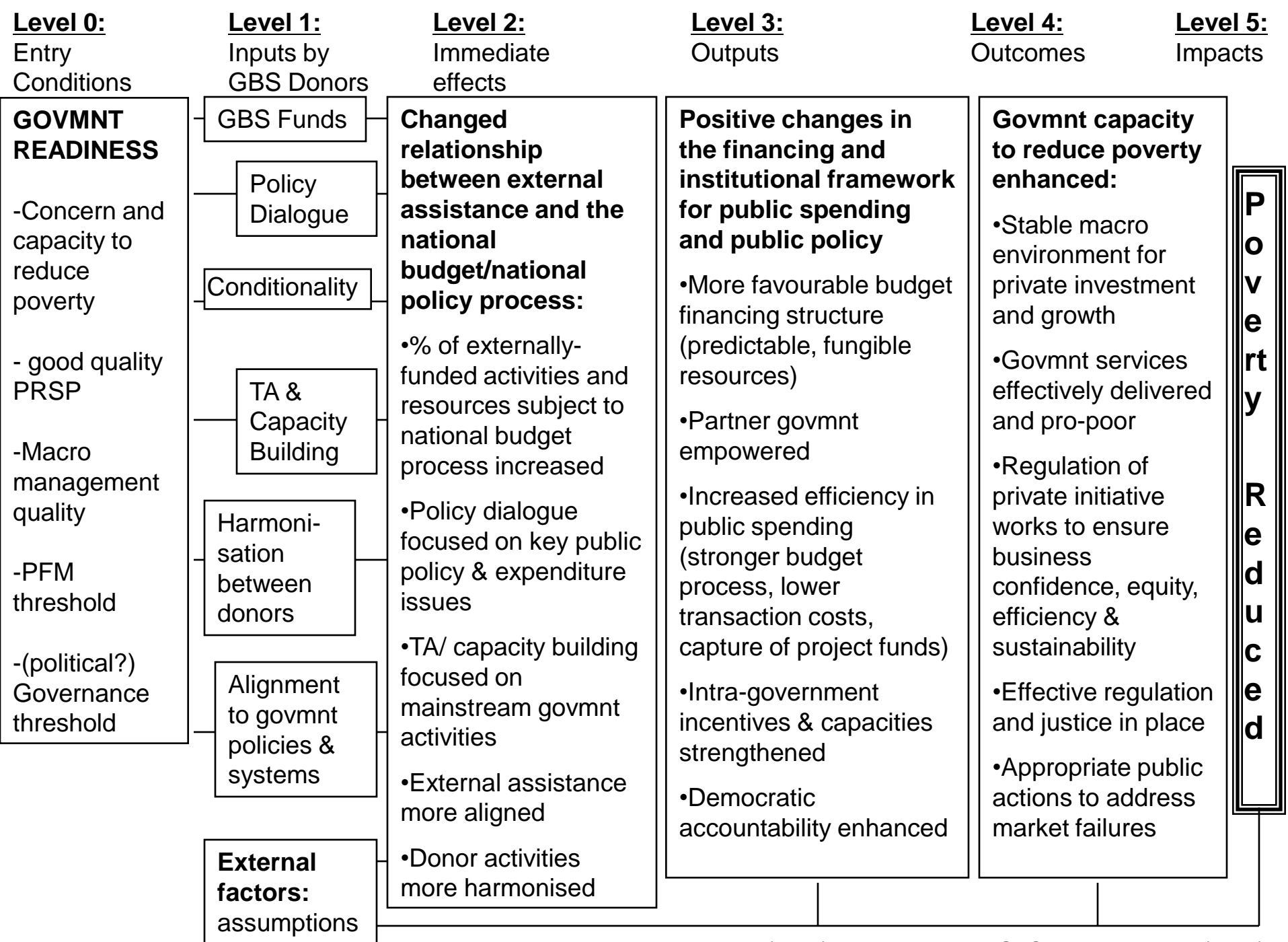
## **The evidence suggests that GBS donors**

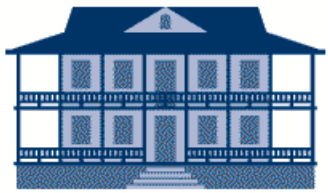
- underestimate political constraints
- do not apply selectivity well
- are bad at enforcing conditionalities



which makes it unattractive for small donors to just hand over the cash !





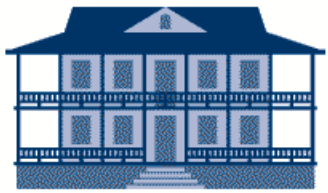


## A summary of political assumptions behind GBS

- 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 ?





## CONCLUSION

### Under the New Aid Architecture

- a range of instruments should be deployed
  - general budget support
  - sector budget support
  - sub-sector programme aid
  - ‘new-style’ project aid
- small donors can cover the whole range, but probably will find their niche in the lower end of the range





Thank you !

