



The art of funding projects without being selfish

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Outline

1. On selfish donors
2. Aid as a twofold collective action problem
3. Aid modalities to optimise alignment
4. Lessons for BTC

1. On selfish donors

- Donors often pursue objectives that conflict with the development objective, such as commercial and foreign policy interests
- Even if we abstract from these, donors may be called 'selfish' if they pursue development in ways that are
 - visible and thus 'fake-attributable'
 - in conformity with donor rather than recipient priorities
 - supervisable and accountable by donor standards
- Selfish behaviour reduces the development impact of aid
 - Knack and Rahman (2004), Roodman (2006)
- Note: It might be more correct to call such donors 'myopic development maximisers'

How is development impact impaired?

1. Wasteful transaction costs imposed on the recipient
 - lack of standardisation of intervention cycles, financial reporting standards, fiscal regulations, missions, etc.
2. National priority setting undermined
 - donors impose their own views
3. Fiscal planning impaired
 - ‘poaching’ of recurrent cost
4. Public service undermined
 - ‘poaching’ of qualified staff

What is the prediction about donor agencies?

- All agencies internalise a fraction of the external costs imposed on the government by their own interventions
- The smaller an agency, the smaller the proportion of external costs it internalises, and the more selfish it will act (inter agency externalities)
- Also, the more fractionalised decision making is within an agency, the more selfish it will act (intra agency externalities)

2. Aid as a twofold collective action problem

- The above approach aptly summarises the collective action problem that arises with a multiplicity of development maximising but myopic donor agencies
- But it leaves out of the picture systemic policy failures on the part of the recipient government

The altruistic recipient government

- This is for instance how Roodman (2006) models the recipient:
 - *“We will assume throughout **for the sake of tractability** that the recipient is a development maximizer”* (p.6, my emphasis)
- More precisely, it is a central authority such as the Ministry of Finance that is cast in this role:
 - *“(...) It has the propensity to perfectly maximize development within the ambit of its powers, while the line ministries generally do not”* (ibidem, p.6)

A different view

- There is in fact a second class of collective action problems, between donors as a group and the recipient government
- Such problems occur because donor and recipient preferences differ:
 - on the donor side: (myopic) development maximising agencies
 - on the recipient side: a political elite that promotes development only to the extent that it is the best strategy for survival and rent capture

Political regimes and institutions

- Political elites strive to extract private advantages from power, but are constrained by the need to raise taxes, by electoral control, and by countervailing powers
- Producing and enhancing an environment conducive to economic development can be a political survival strategy (development state)
- But so can be patronage politics, with privatisation of economic rents, low provision of public goods and no pro-poor redistribution (failing state)
- Democratic elections do not necessarily make a development state the more likely outcome
- Acemoglu, D., Johnson, S., Robinson, J. (2004)

In the case of a failing state

- The government is largely indifferent to development
- Full alignment by donors is undesirable because
 - National priorities are not development oriented
 - The government is not interested in a competent and autonomous civil service
 - National procedures are deeply flawed

A twofold analysis

- Traditional aid procedures and institutions stress the second class of collective action problem to the detriment of the first
- The Paris Declaration, although it acknowledges the second, mainly stresses the first collective action problem
- A better approach puts a balanced emphasis on both (Martens 2005)
- This leads to a particular reading of the Paris declaration with
 - somewhat less attention to just getting good scores on progress indicators (maximising alignment)
 - more attention to quality (optimising alignment)

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)

3. Aid modalities to optimise alignment

- The forgoing twofold collective action perspective suggests varying alignment according to the political situation in the recipient country
- We think there are good arguments in favour of an 'aid portfolio approach' that includes
 - budget support: general and sector
 - SWAPs
 - 'new style' projects and programmes
- These different modalities reinforce each other

'New style' projects

The notion of 'new style' projects can be clarified with reference to the Paris Declaration, and in particular the 9 donor-related indicators

- Firstly, 'new style' projects satisfy the alignment indicators that are desirable whatever the political regime
 - 3. Aid flows reported on budget ✓**
 - 7. Aid delivered on time ✓**
 - 8. Aid untied ✓**
 - 12. Mutual accountability assessments in place ✓**

- Secondly, they respect the spirit of the harmonisation indicators that are also desirable whatever the political regime:

4. TA co-ordinated ⚡

10. Donor missions and analytical work pooled ⚡

- Thirdly, they infringe to varying degrees on three indicators that are sensitive to the political regime, but they do so on the basis of a coherent strategy:

5b. National systems used 💣*

6. Parallel PIUs avoided 💣*

9. Programme-Based Approaches (PBAs) used 💣*

4. Lessons for BTC

1. Distinguish constraints on optimising H&A

- internal to BTC
 - BTC programme cycle
 - policy regarding TA
- relations with DGDC
 - management contract
 - day-to-day working relations
- external institutional setting
 - control organs at BTC
 - Parliament, public opinion, etc

2. Develop an H&A strategy for 'new style' projects

4. Lessons for BTC (continued)

3. Manage all interventions in a given country from a portfolio perspective
4. Together with DGDC develop an explicit strategy for alignment in failing states {indicators that are sensitive to political regime 5b, 6, 9}
 - taking into account process (weak but committed governments)
 - taking into account the DAC principles on H&A in fragile states

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Thank you !

