



# The role of smaller donors in the new aid architecture

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## Outline

1. Smaller donors and the PRSP approach
2. Donors big and small
3. Belgium and the PRSP
4. Recent evolutions in the PRSP approach
5. Substantive arguments in favour of 'lower range' instruments
6. Conclusion

# 1. Small donors and the new aid approach

period	preferred aid modality	major constraint addressed	smaller donors
1960-1980	projects	- physical capital - human capital	☺
1980-2000	structural adjustment support	- macroeconomic policies	☹
2000-	budget support	- ownership - governance	?

## New aid architecture ( $\approx$ PRSP approach)

- Some key words in donor-recipient relations:
  - ownership (PRSP)
  - use of national implementation systems
  - policy dialogue
  - ex post conditionality and selectivity
  - new M&E
- PRSP and the H&A agenda?
  - harmonious
- PRSP and the MDGs?
  - both address the same poverty agenda
  - but long-term institutional perspective of PRSP may clash with drive to score on MDGs

## 2005 Paris Declaration on Aid Effectiveness

12 progress indicators



9 related to donors

3 related to recipients

## 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%)

## This suggests that

- the new approach to aid is a high risk undertaking
- policy dialogue and conditionality are key
- institutional strengthening and capacity building through TA are crucial ingredients
- and donors should work closely together



## 2005 Paris Declaration on Aid Effectiveness

12 progress indicators



9 related to donors

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## 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

## 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 ✗

## Symbols used

- ✓: unrelated to donor size
- ✕: a small donor may actually feel more comfortable with such donor-recipient equal partnership principles than larger donors
- ⚡: indicators involving harmonisation among donors; a small donor may feel overwhelmed by the big ones, but on the other hand he may also regard this as an opportunity to punch above his weight
- 💣: possibly the one indicator that small donors may feel genuinely threatened by

## 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
  
- at sector level PBAs  $\approx$  SWAPs
- at macro level PBAs  $\approx$  GBS

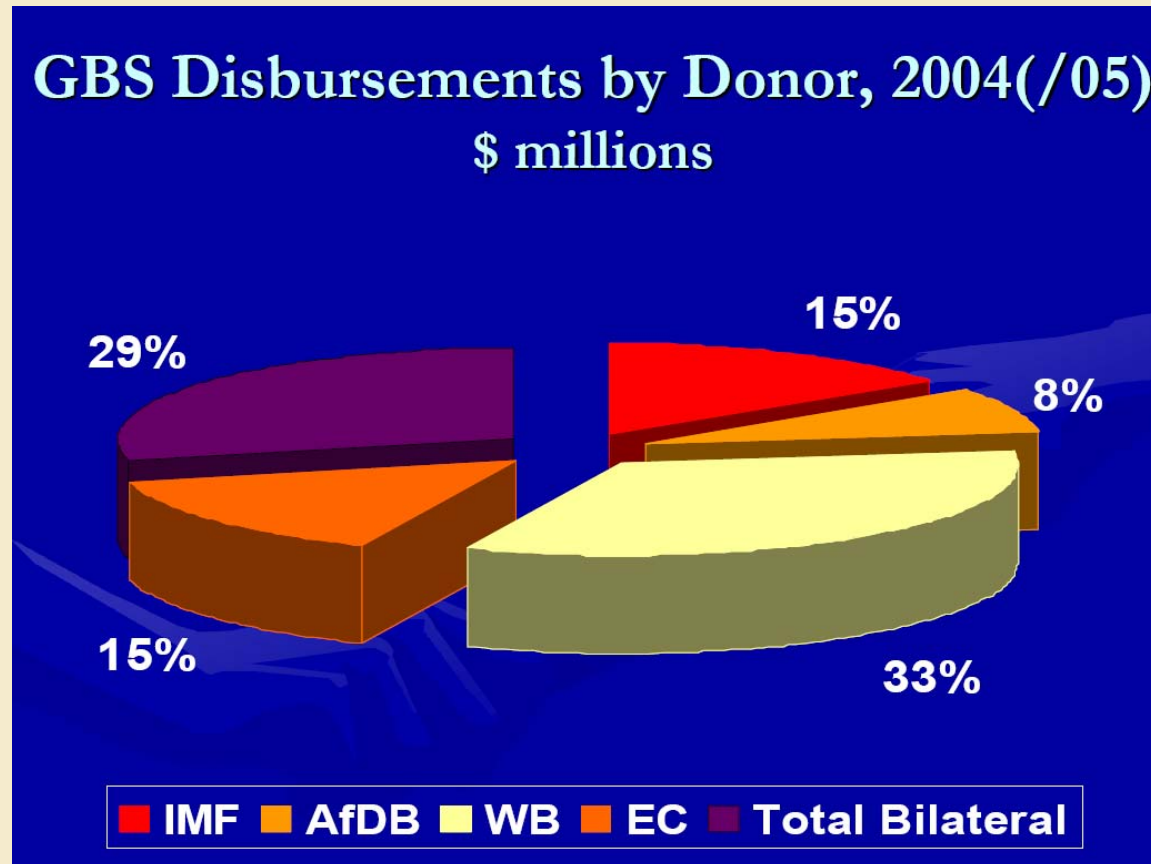
## Big donor bias ?

- Initially, the new aid discourse strongly favoured general budget support at the expense of other instruments
- Establishing a pecking order within PBAs where project aid was not done and sector approaches were regarded as a transitory, second-best solution
- The management of GBS and especially the attendant policy dialogue and conditionalities become very unwieldy as the number of donors increases

## A strong focus on GBS suggests the following role for smaller donors

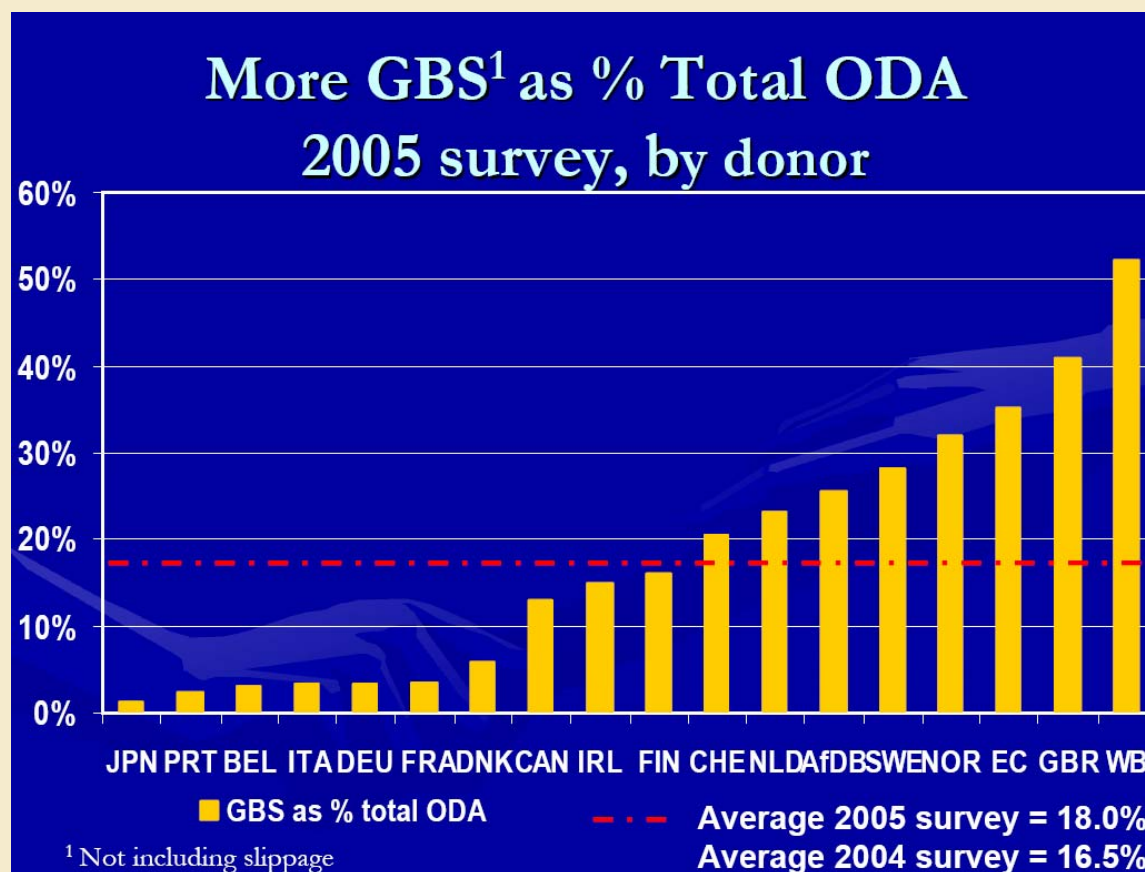
- Not so small donors may become bigger by
  - increasing aid volumes to international targets
  - geographical concentration
  - becoming part of a team (like-minded countries)
- Small donors better 'stay out of the kitchen', e.g.
  - fund multilaterally, directly or through co-financing
  - or**
  - participate mainly as silent partners

## 2. GBS donors (volume)



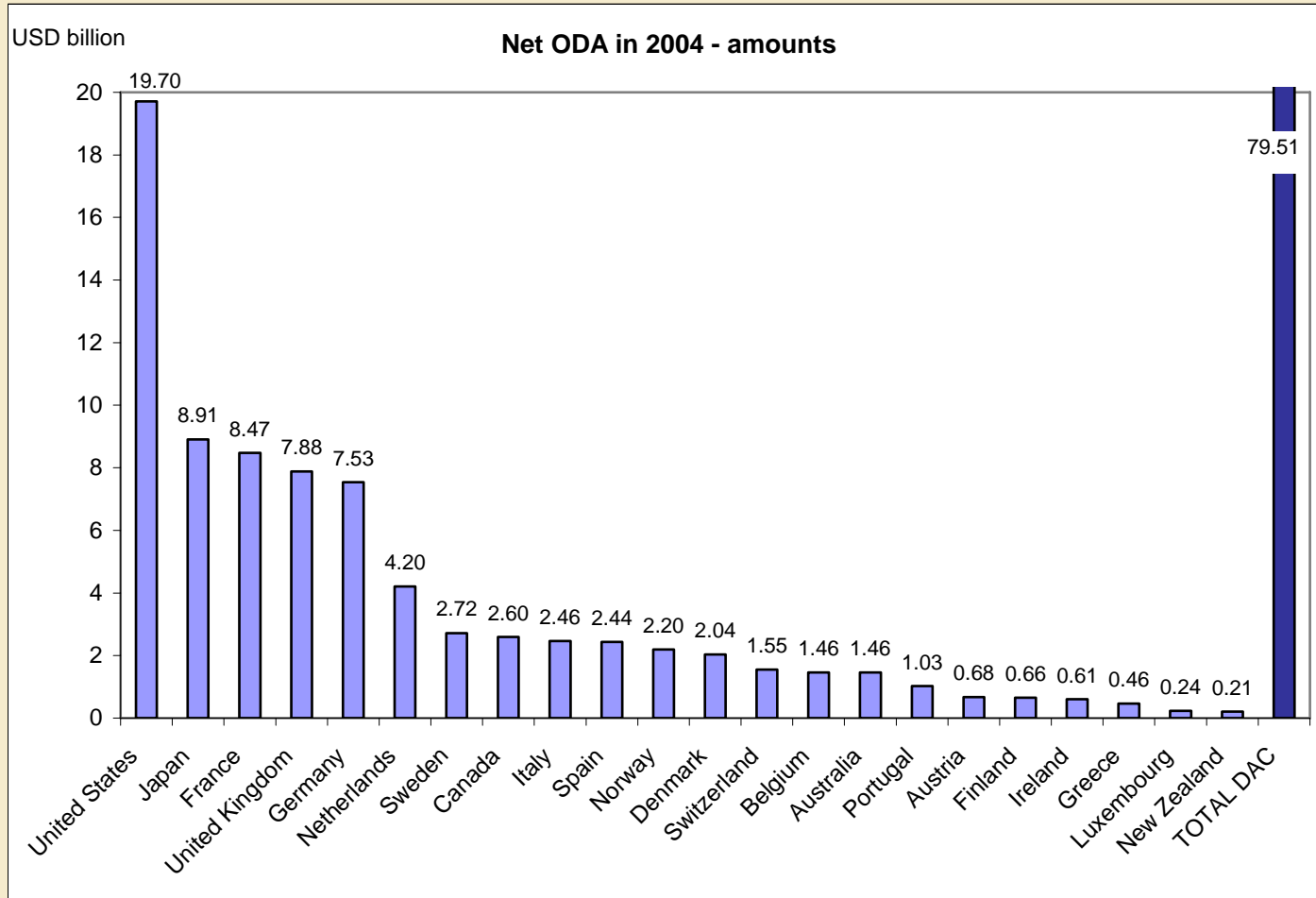


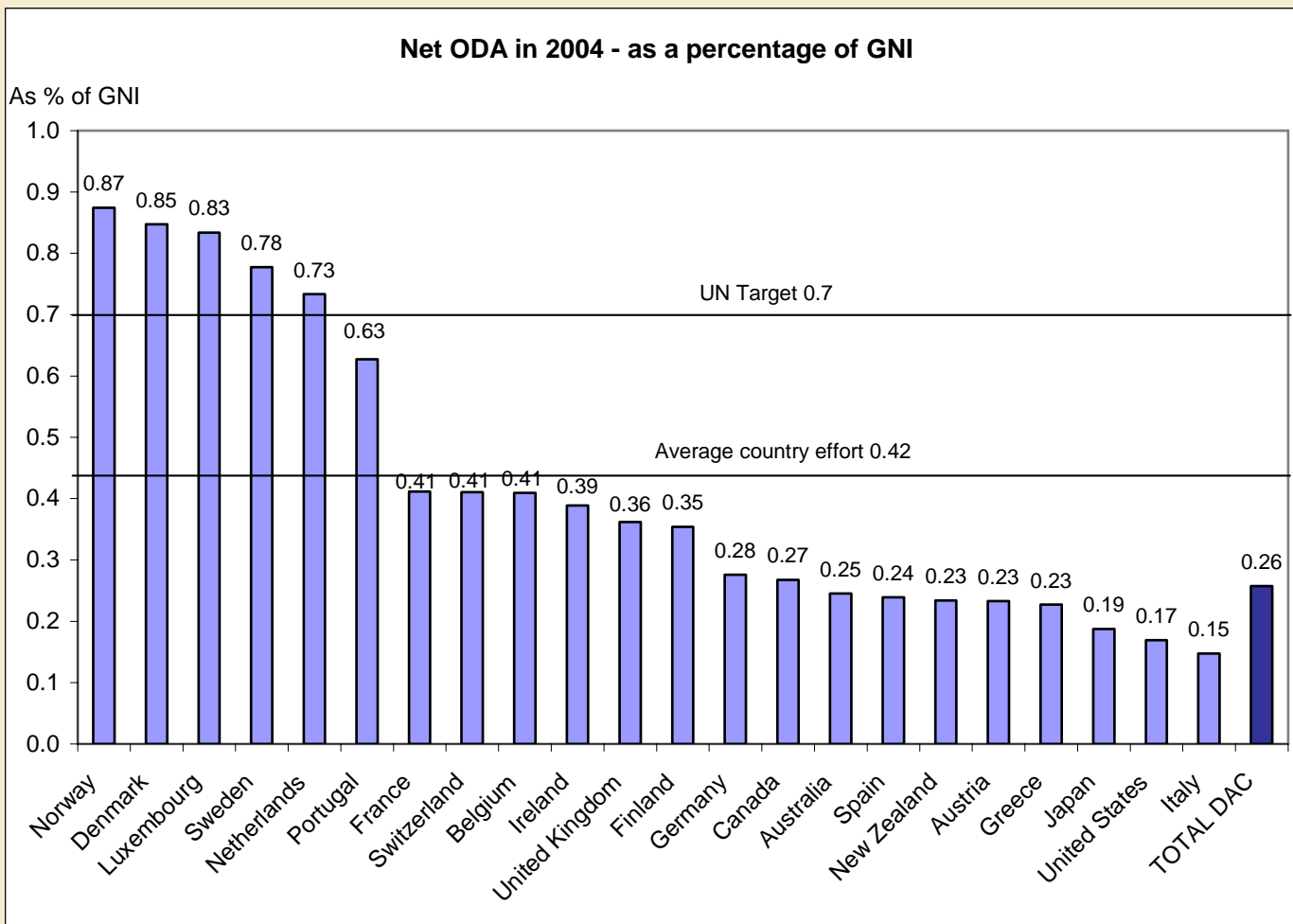
## GBS donors (share of donor ODA)



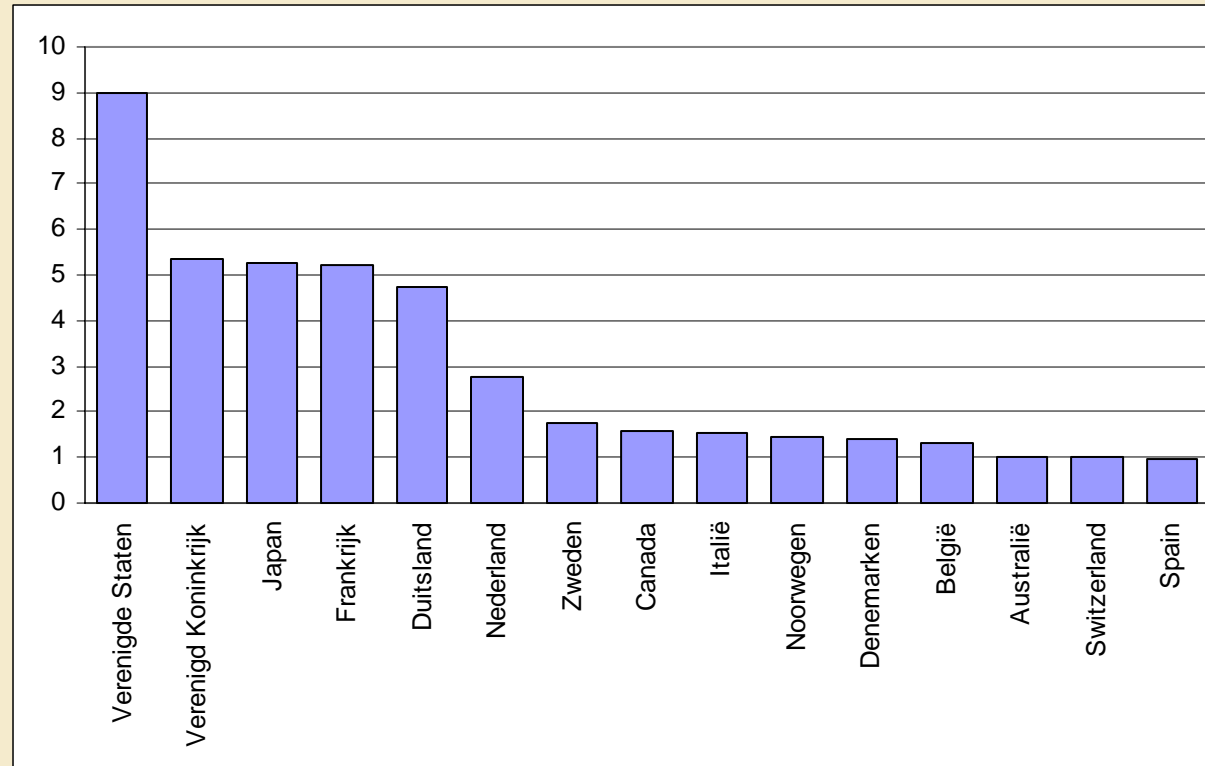
### 3. Belgium and the PRSP

- Not yet an active PRSP donor
  - GBS exceptional
  - SBS experiment
- No H&A business plan
- Institutional issues
  - BTC conceived in pre-alignment age
  - DGCD highly centralised
  - defederalisation issue unresolved
- Small donor syndrome

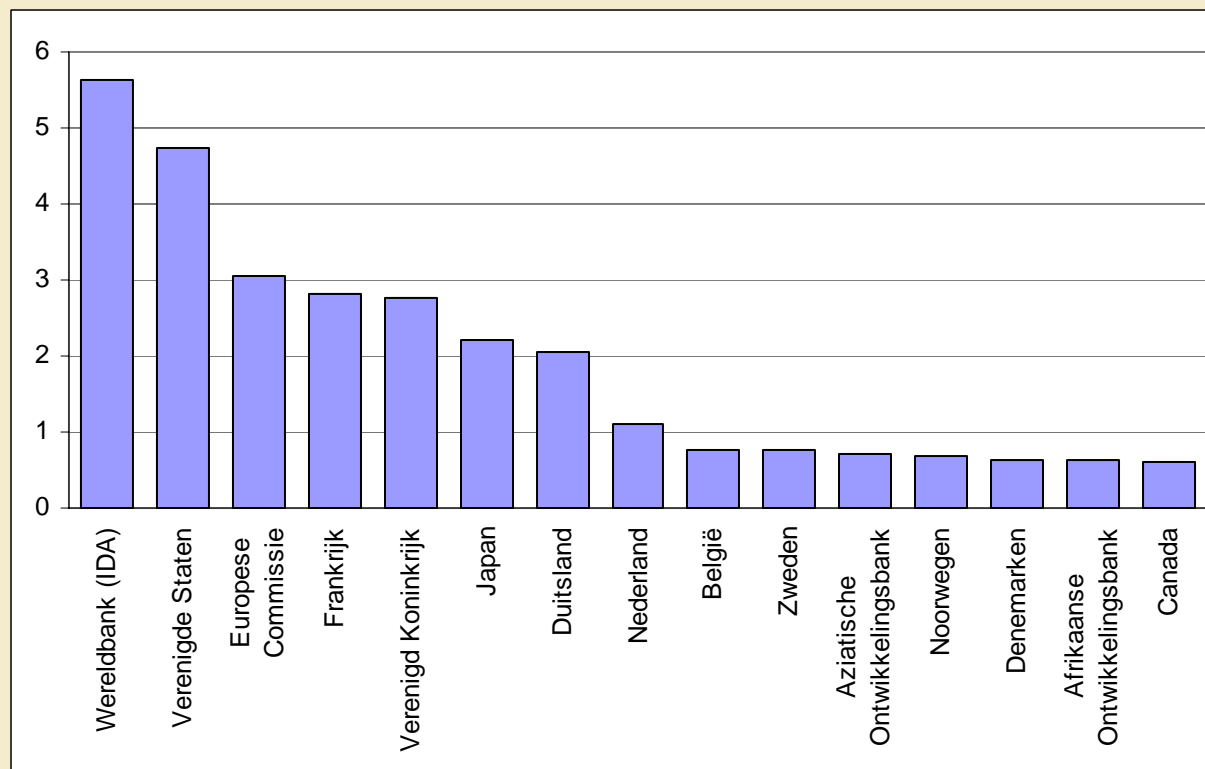




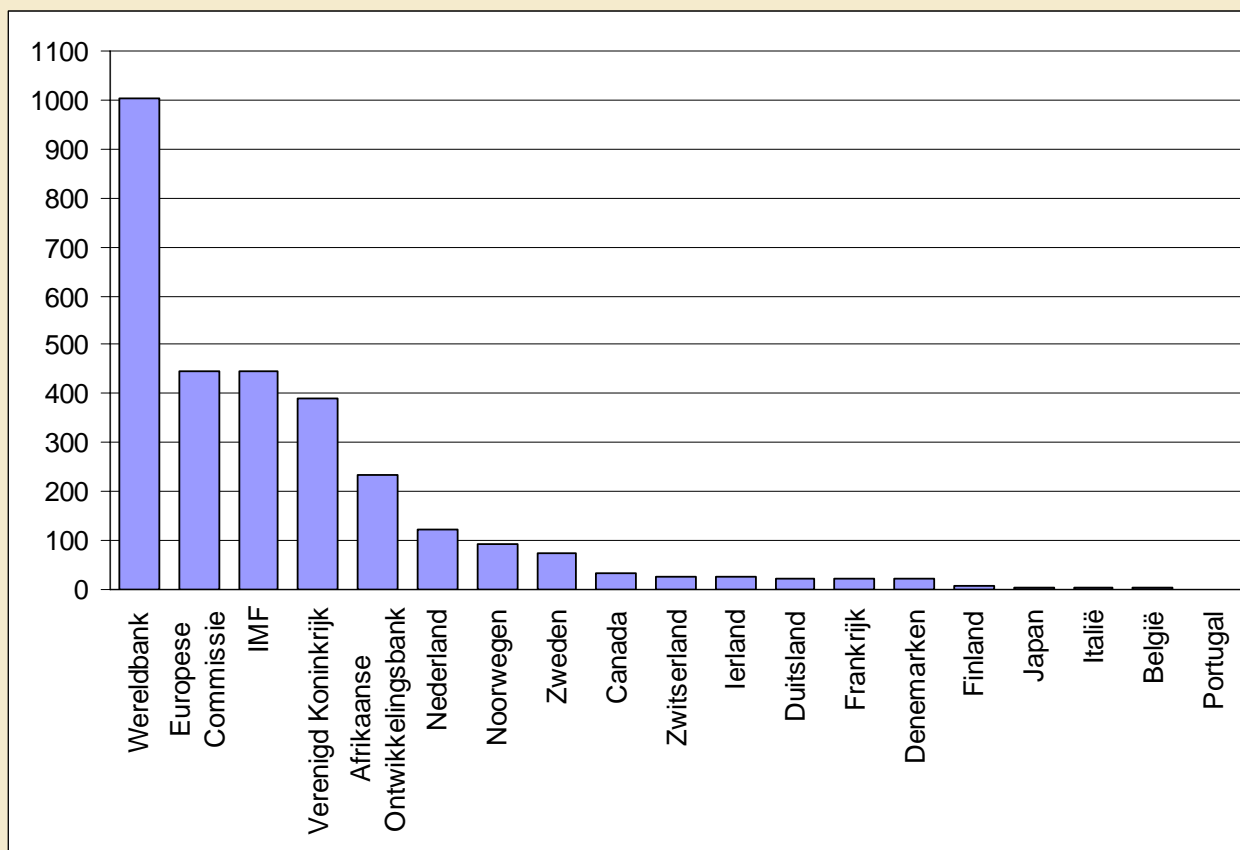
## Total ODA to LICs from DAC donors ( billion \$ - 2003-2004 average)



## Total ODA to LICs - bilateral and multilateral channels (billion \$ - 2003-2004 average)



## GBS to 16 African countries - selected bilateral and multilateral channels (million \$ - 2004)



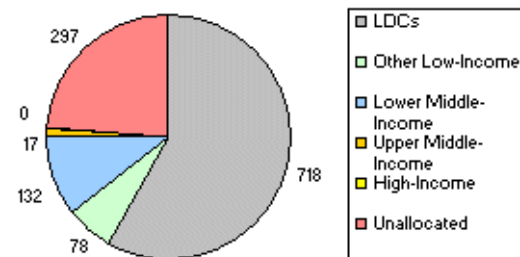
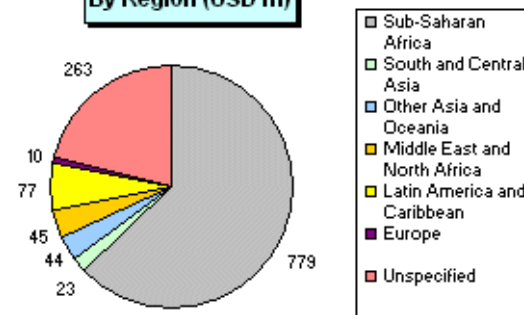
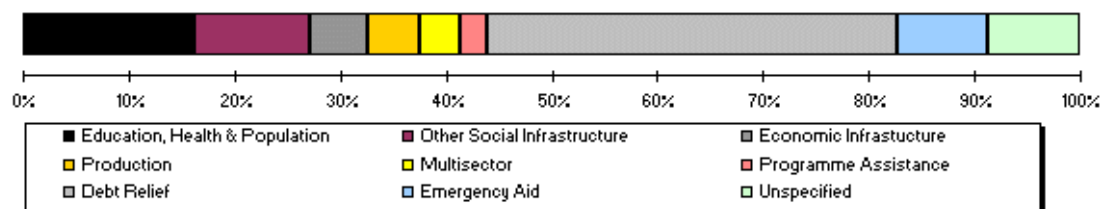
**BELGIUM**

Net ODA	2003	2004	Change 2003/04
Current (USD m)	1 853	1 463	-21.0%
Constant (2003 USD m)	1 853	1 301	-29.8%
In Euro (million)	1 640	1 178	-28.2%
ODA/GNI	0.60%	0.41%	
Bilateral share	79%	62%	
<b>Net Official Aid (OA)</b>			
Current (USD m)	163	190	16.5%

**Top Ten Recipients of gross ODA/OA (USD million)**

1 Congo, Dem. Rep.	529
2 Cameroon	25
3 Burundi	21
4 Rwanda	20
5 Burkina Faso	16
6 Ecuador	16
7 Bolivia	16
8 Tanzania	15
9 South Africa	14
10 Senegal	14

Gross Bilateral ODA, 2003-04 average, unless otherwise shown

**By Income Group (USD m)**

**By Region (USD m)**

**By Sector**


Source: OECD, DAC.

<http://www.oecd.org/dac>



## 4. Recent evolutions in the PRSP thinking

- Towards a 'portfolio' approach to aid instruments
  - Comprising the whole range from GBS to projects
  - Allowing small donors an additional option: to specialize in the **low range** of the portfolio:
    - sectors
    - sub-sectors
    - programmes
    - 'new-style' projects
- } SWAPs
- Such an approach allows for a larger number of active donors

## 5. Substantive arguments in favour of 'lower range' instruments

- Most of the arguments against traditional projects are valid
- 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, admittedly with lower effect, even in difficult policy environments
3. Not all projects are fully fungible
  - macro fungibility
  - sector fungibility
  - project fungibility

4. In fact, projects allow to address genuine bottlenecks at sub-sector levels
5. Now that national policy and institutional issues are better addressed, projects should give much better results
6. 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

## 6. Conclusion

- A range of instruments is compatible with the new approach to aid
  - general budget support
  - sector budget support
  - sub-sector programme aid
  - 'new-style' project aid
- Small donors should seek a niche in the lower end of the range
- As a medium-sized donor Belgium faces the full range of options

**Thank you !**

