



# The evolution in aid thinking and practice

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## TODAY'S SESSIONS

*Morning session*

- I. The evolving aid architecture
- II. Underlying arguments

*Afternoon session*

- III. A reality check
- IV. An assessment

# **I. The evolving aid architecture**

1. Aid: what and why
2. The history of aid in three paradigms
3. The 2005 Paris Declaration
4. A classification of aid instruments
5. Aid as donor interference

# 1. Aid: what

- ODA (official OECD/DAC statistics)
  - emanating from public sector
  - concessional
  - development intention
- ODA restricted to 22 traditional bilateral donors but
  - there are many non-DAC high income donors
  - also 'poor' countries provide aid
  - private aid is rising spectacularly
- Huge number of players involved on the supply side
  - > 100 multilateral organisations
  - > 50 bilateral donors, of which 22 DAC
  - thousands of NGOs and delivery organisations
- Aid is not without controversy
  - More or less aid?
  - Purposes of aid?

# 1. Aid: why

## Apparent irrationality

- States are responsible for their own security and well-being
- Why provide scarce public resources to promote a.o. the well being of people in other countries?

## Yet aid is popular

- Diplomatic interests
  - commercial
  - cultural
  - strategic
- Humanitarian and developmental concerns
  - intrinsic motivations
  - extrinsic motivations: global public goods

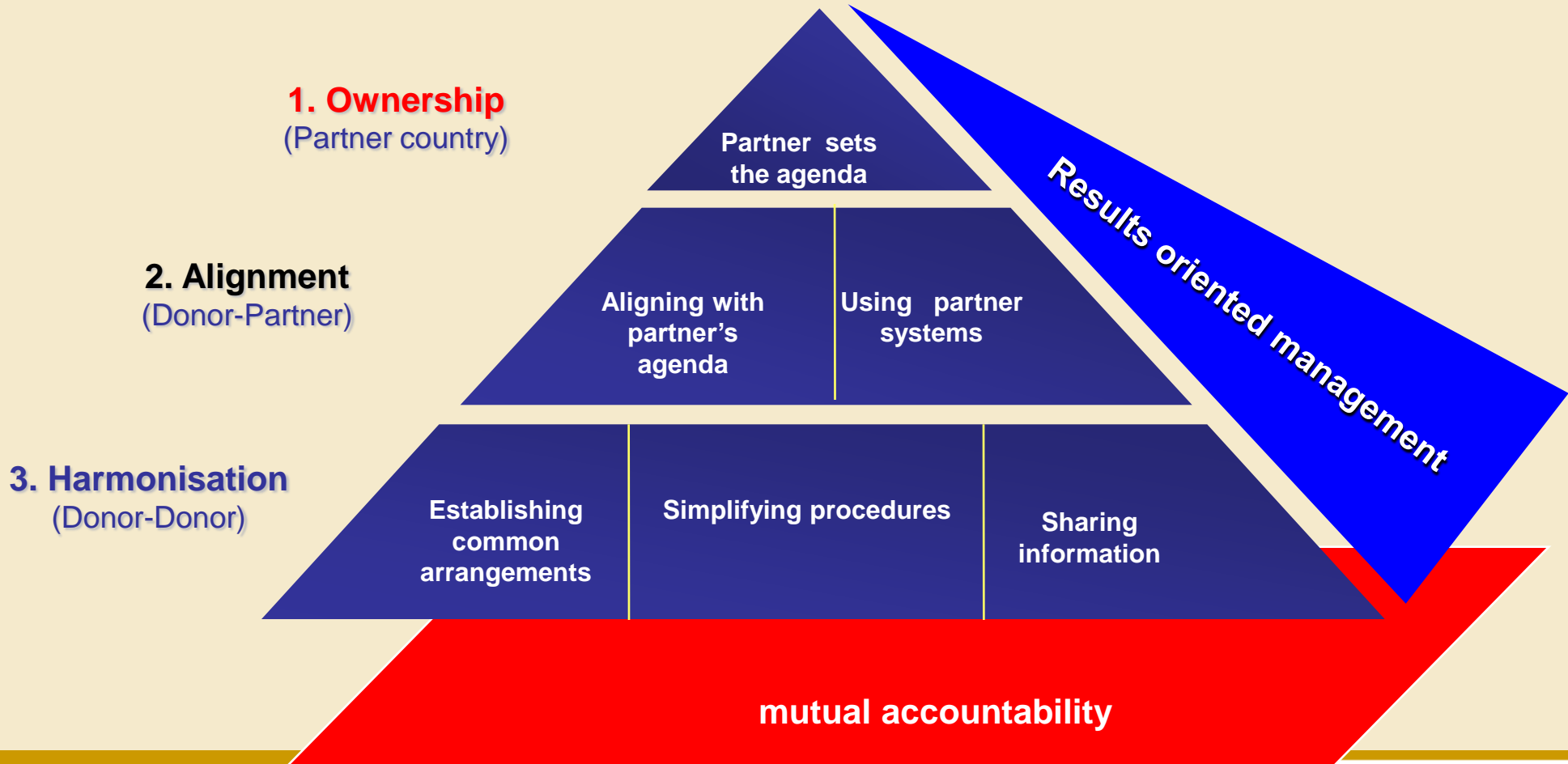
## Aid can

- Expand activities/capacities of a recipient gvt
- Act as an incentive or as a payment
- Act as a powerful symbol and signal

## 2. The history of aid in three paradigms

<b>period</b>	<b>preferred aid modality</b>	<b>major constraint addressed</b>	<b>donor attitude to partner government</b>
1960-1980	projects	<ul style="list-style-type: none"> <li>- physical capital</li> <li>- human capital</li> </ul>	bypass
1980-2000	policy based support	<ul style="list-style-type: none"> <li>- macroeconomic policies</li> </ul>	bully
2000-	budget support	<ul style="list-style-type: none"> <li>- ownership</li> <li>- governance</li> <li>- good donorship</li> </ul>	engage

# 3. The 2005 Paris declaration

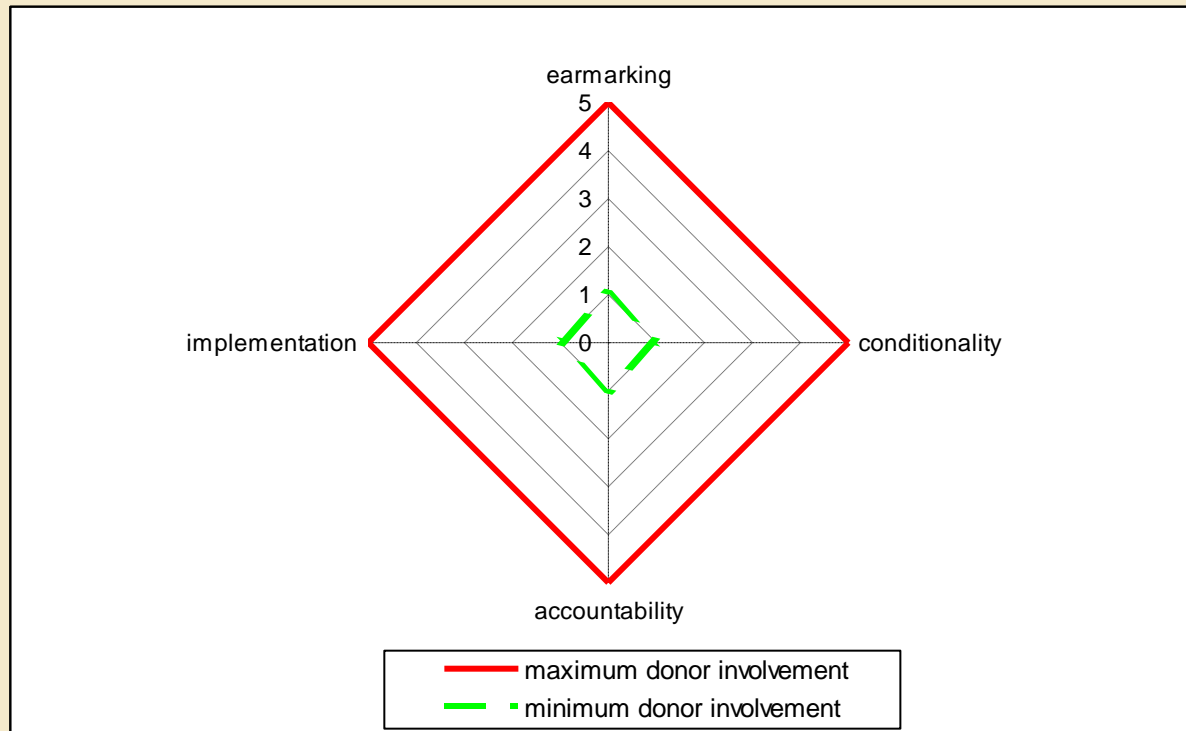


## The Paris agenda

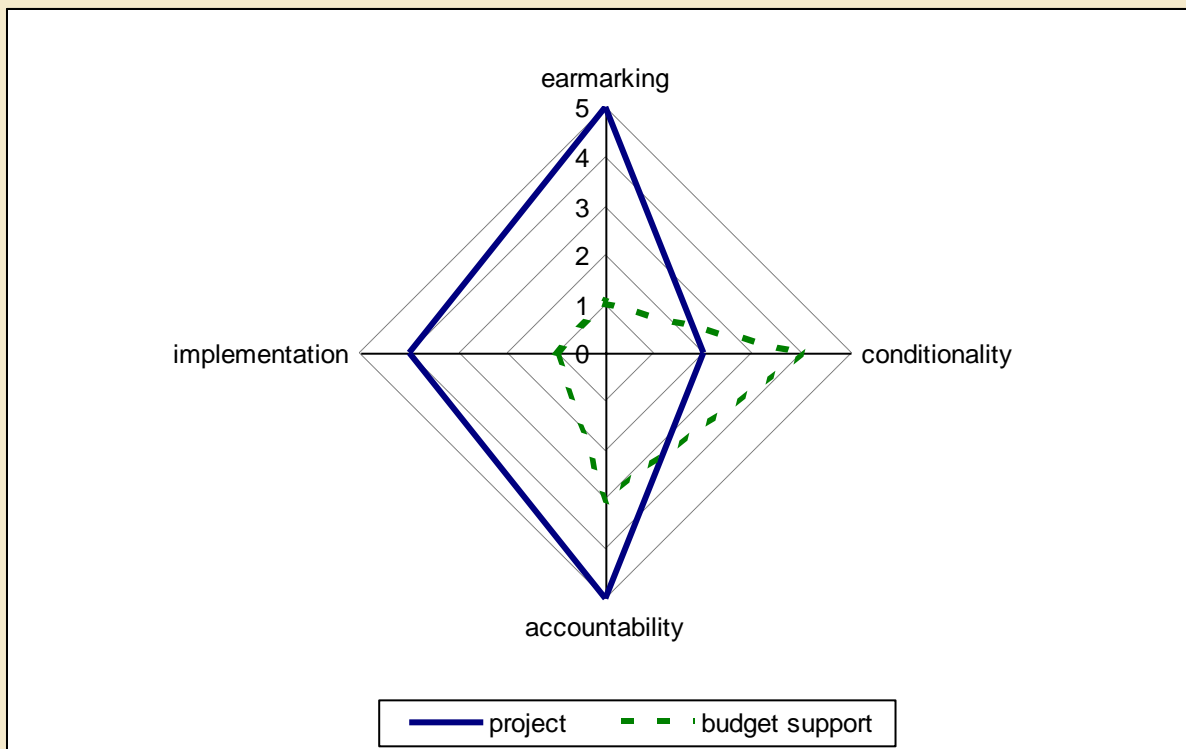
- Urges recipient countries to improve their
  - policy priorities (PRSP)
  - PFM systems
  - procurement systems
  - results orientation
- Urges donors to react by increasingly aligning and harmonizing their aid
- Budget aid is the 'flagship' among aid modalities when it comes to alignment



# Aid characteristics diamond



# Aid characteristics diamond



## The essence of the 'new aid approach' (NAA)

- Reform (governance) oriented
- Reduced earmarking and donor control over implementation
- Changed accountability
- Increased conditionality of the consensual type
  
- Typically a combination of
  - Budget support, SWAPs, new-style projects
  - Technical assistance
  - Conditionalities and policy dialogue

## New style projects

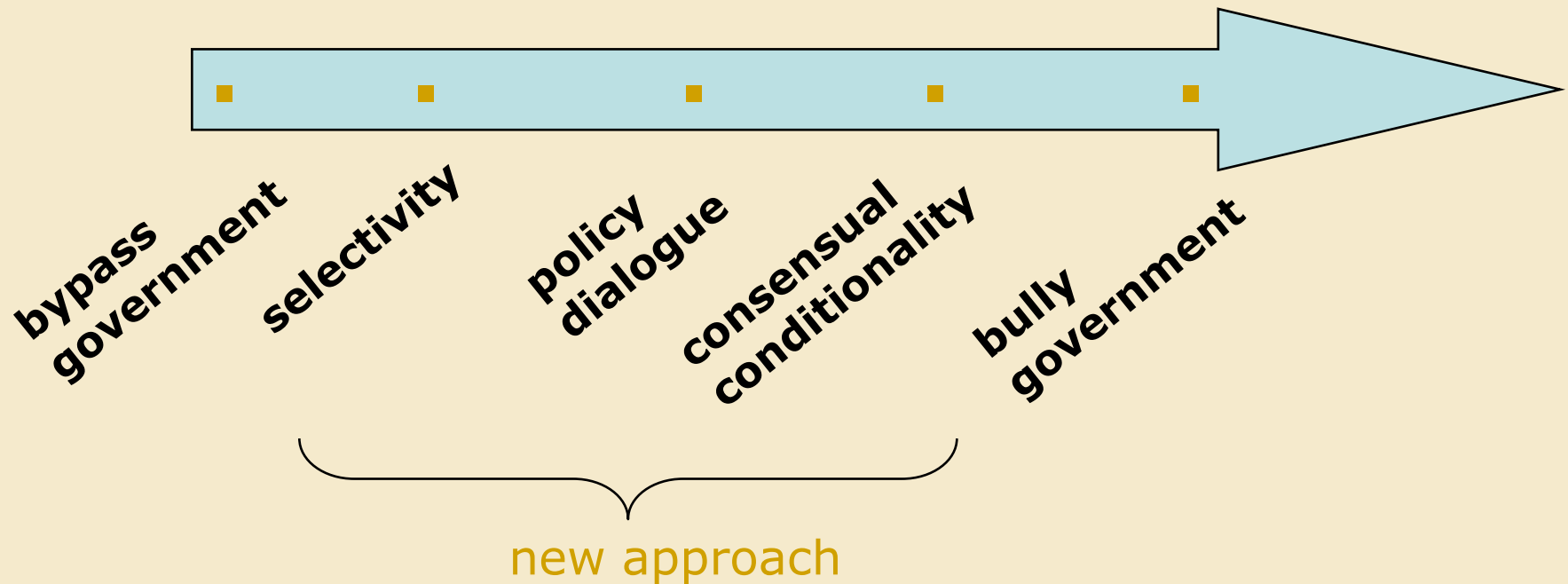
- Act micro, but think macro
- Projects as part of a donor portfolio
  - GBS and SBS
  - SWAPs
- Projects as part of recipient public policy
  - Produce innovative insights, learning linked to informing/influencing higher levels (policy influencing or policy making)
  - Are integrated in wider policy processes
  - Stimulate the use evidence based expertise smartly
- Align and harmonise
  - PIUs as last resort

# 5. Ais as donor interference

degree of donor interference

weak

strong



## **II. Underlying arguments**

1. Blaming actors
2. Blaming modalities: projects
3. Blaming modalities: structural adjustment
4. NAA as the answer

# 1. Blaming actors

- Aid-dependent countries are poorly governed
- Donors
  - What they do themselves is NOT necessarily better
    - donors are bureaucratic and expensive implementers
    - donors undermine the public sector
    - donors fail to collaborate with each other
  - By-passing government is naive
  - Conditionality does not work because
    - donor arrogance
    - donor lack of resolve

## What are the major sins of donors?

- **Selfishness**
  - donors satisfy their own accountability needs at the expense of development effectiveness
  - they ‘poach’ scarce staff and recurrent resources
  - they undermine overall policy coherence
- **Naivety**
  - donors harbour the illusion that they can bypass a weak state and bring sustainable development results
- **Arrogance**
  - donors impose their own solutions (Washington ‘consensus’)
- **Softness**
  - sanctions are not applied and thus not credible



## 2. Blaming aid modalities: projects

### Strengths

- Allows addressing genuine poverty issues at local level
- Even in absence of a 'development state'
- Relatively simple to manage and supervise (log frame)
- High donor commitment
- High donor accountability

### Weaknesses

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

### 3. Blaming aid modalities: structural adjustment

#### Strengths

- Sound macroeconomic management stressed
- Some technocratic governance issues addressed
- Institutional strengthening of public finance management
- Attractive modalities: budget support and balance of payments support

#### Weaknesses

- Government uncommitted
- Public opinion hostile
- Conditionality design faults
- Reform overload
- Long-term view on development missing

## 4. NAA as the answer

The answer from the new aid approach involves:

- Institutional strengthening of the state
- Downward accountability
- Donors acting in unison
- Consensual or harmonious conditionality

## An answer with implications for involved actors

- Government is expected to
  - Be committed to reform, development, poverty reduction
    - ⇒ ownership
  - Have sufficient state capacity to formulate/plan/implement
    - ⇒ politics and institutions matter
  - Make transparent use of resources
    - ⇒ accountability mechanisms
  - Bring in civil society

- Aid agencies must honour
  - Partnership principles
    - ⇒ long-term commitment
    - ⇒ mutual accountability
    - ⇒ frank policy dialogue
    - ⇒ transparent conditions
  - Alignment
    - ⇒ flexible use of new aid modalities
  - Harmonisation
  - Good donorship
    - ⇒ predictable aid
    - ⇒ good quality technical assistance

- Civil society is supposed to
  - Broaden ownership
  - Bring pro-poor interests to the forefront:
    - Be close to the poor - Represent the poor
    - Formulate pro-poor contributions
    - At several stages: formulation, implementation, M&E
  - Play a watchdog role
    - In reaching poverty reduction goals
    - In pushing government towards more transparency, effectiveness, ...
  - Be the crucial ingredient to link increased democracy with effective poverty reduction

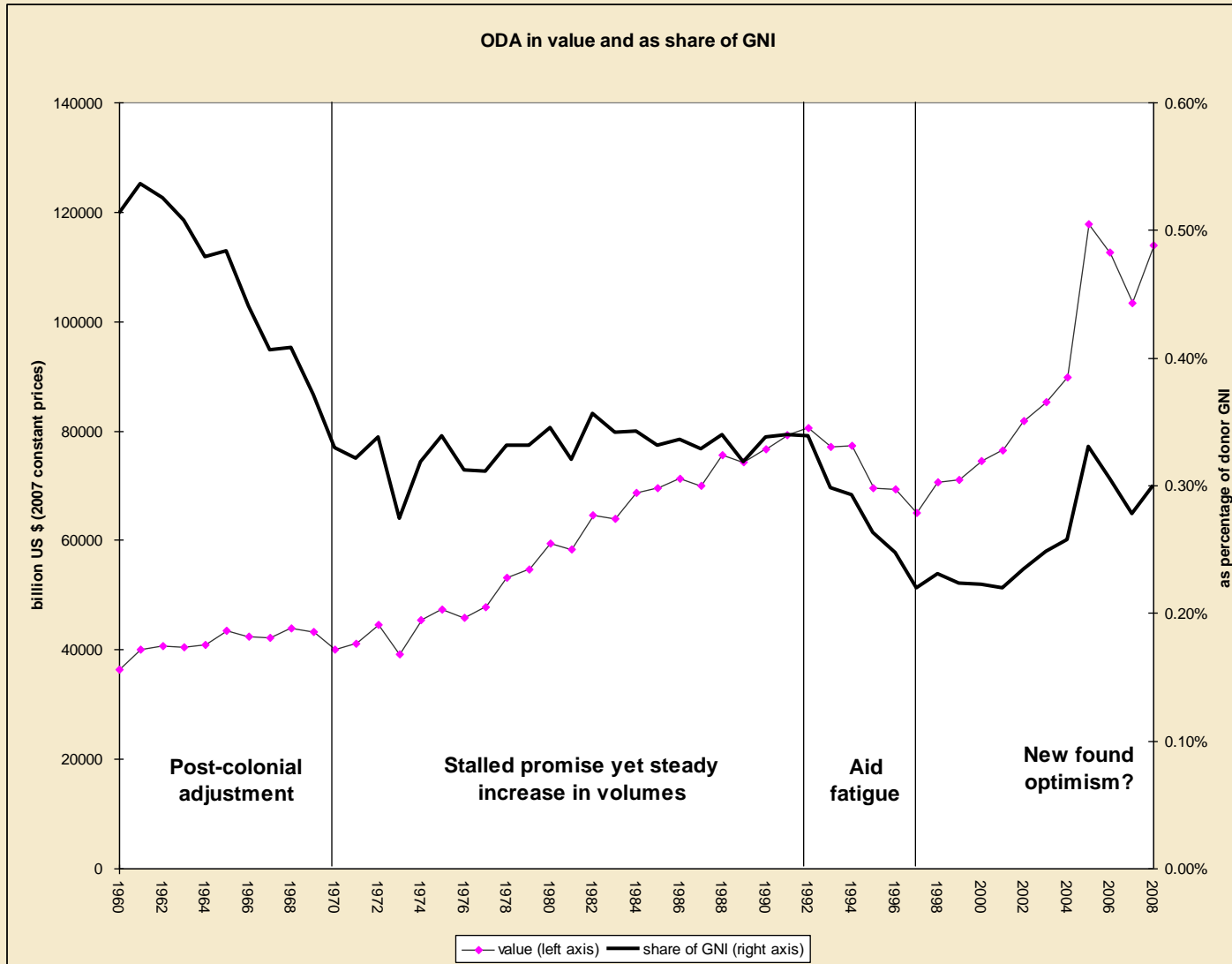
## **III. A reality check**

1. Donor commitment to the NAA
2. Monitoring the Paris Declaration

# 1. Donor commitment to the NAA

- All important bilateral donors signed the Paris Declaration
- New aid approach is dominant at DAC and is supported by the World Bank
- The like-minded countries remain fully committed
  - Nordic countries
  - Netherlands
  - UK
  - Switzerland
  - Canada
- Some of the skeptics show interest
  - Germany
  - France
- But two big donors (US, Japan) only seem mildly interested





## 2. Monitoring the Paris Declaration

12 progress indicators



9 with respect to donors

3 with respect to recipients

## Three progress indicators for recipients

	Indicator	2005 baseline	2007 score	2010 target
1	Operational development strategies	17%	24%	75%
2	Reliable Public Financial Management (PFM) systems		36%	50% improve score
11	Sound frameworks to monitor results	7%	9%	38%

# Nine progress indicators for donors

	Indicator	2005 baseline	2007 score	2010 target
3	Aid flows are recorded in	42%	48%	85%
4	Technical assistance is aligned and co-ordinated	48%	60%	50%
5a	Donors use country PFM systems	40%	45%	-80%
5b	Donors use country procurement systems	39%	43%	-80%
6	Donors avoid parallel PIUs	1817	1601	611
7	Aid is more predictable	41%	46%	47%
8	Aid is untied	75%	88%	Progress
9	Donors use co-ordinated mechanisms for aid delivery	43%	46%	66%
10a	Donors co-ordinate their missions	18%	20%	40%
10b	Donors co-ordinate their country studies	42%	42%	66%
12	Mechanisms for mutual accountability	22%	24%	100%

## **IV. An assessment**

1. Will the NAA work ?
2. Getting to Denmark

## 1. Will the NAA work?

- New aid approach is not based on any scientific proof that new modalities and instruments work

*but rather*

- on fairly solid evidence that previous approaches do not work in weak political and institutional environments
- Hence, the NAA is a leap in the dark...

## Some flawed assumptions in NAA

- Involved actors (donors, governments and civil society) are development maximisers
- Getting to Denmark: Technocratic and political governance are mutually reinforcing tendencies

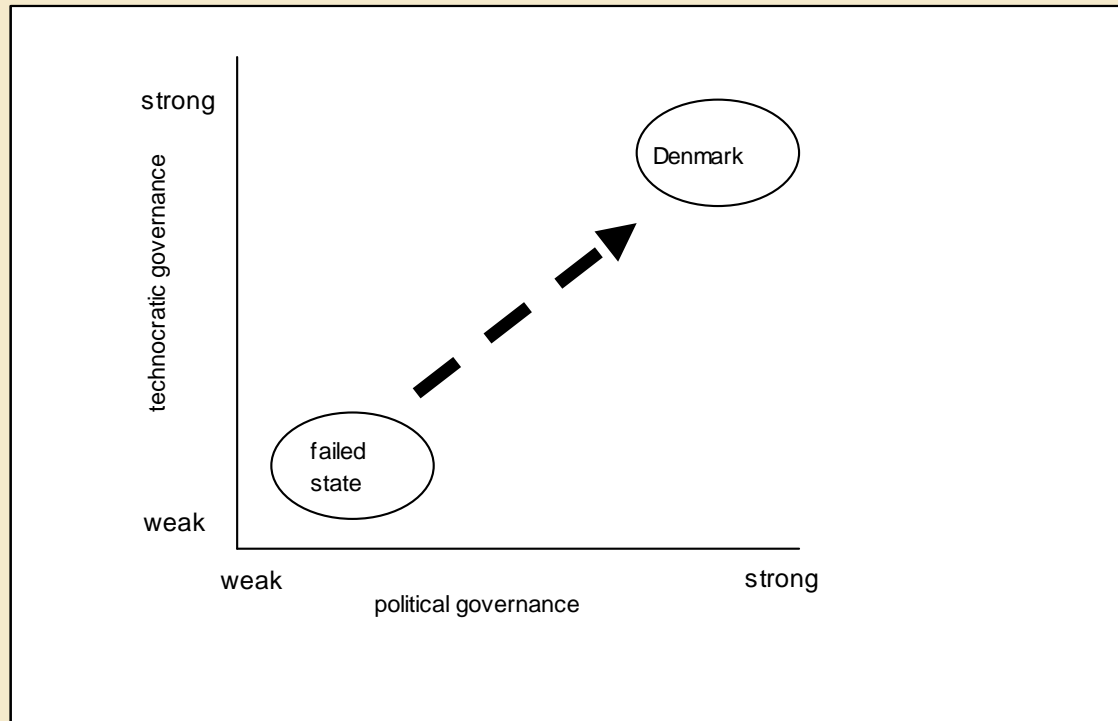
## Development maximisers?

- Donor home politics matter
  - Aid money is tax money + aid agencies are politically led
  - Broken feedback loop further distorts aid agency incentives
  - Aid is sensitive to a range of (foreign affairs) interests (commercial, diplomatic, cultural, developmental...)
  - => Unpredictable, ambitious, risk avoiding, short term reflexes
- Recipient home politics matter
  - Decisions on the production, allocation and distribution of resources serve different interests which may (not) be developmental
  - Development is political, a collective action problem
  - => Commitment fragmented, fluctuates...
- Development cooperation = principal-agent problem
  - Donor and recipient preferences may differ strongly and change in time



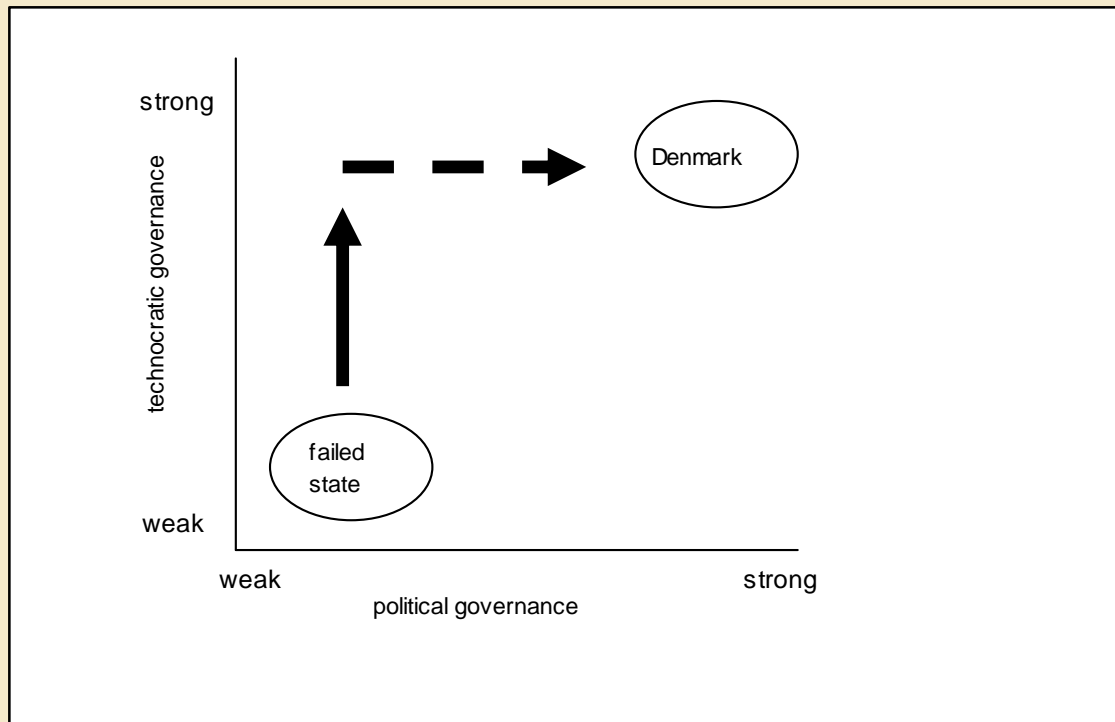
## 2. Getting to Denmark

- Balanced progress along a straight line may not be realistic



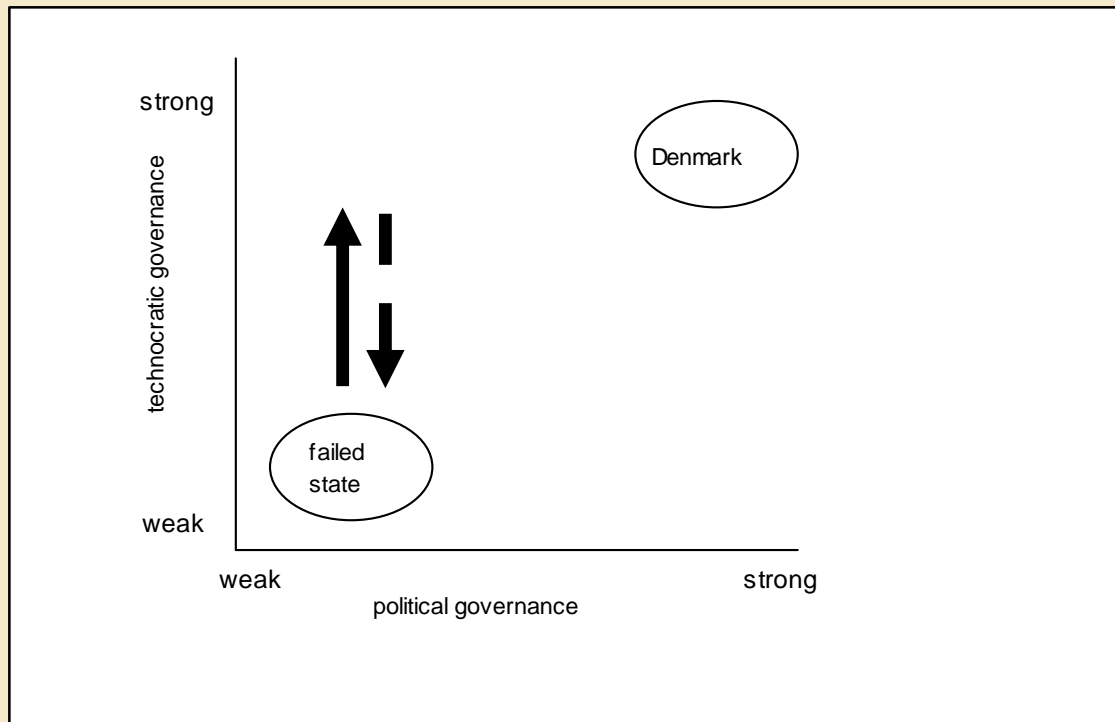
# The technocratic road to development

- Technocratic reform may – through its effect on growth – ignite spontaneous internal political reform dynamics



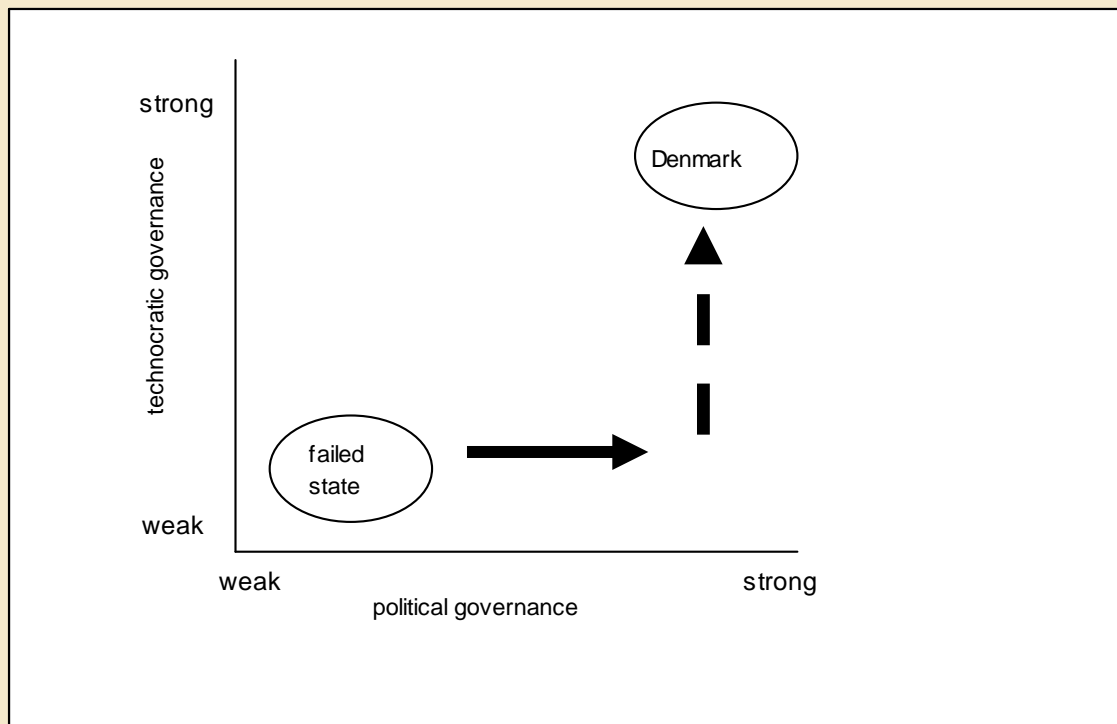
# The technocratic road to development

- But lack of political progress may also undo technocratic progress and growth



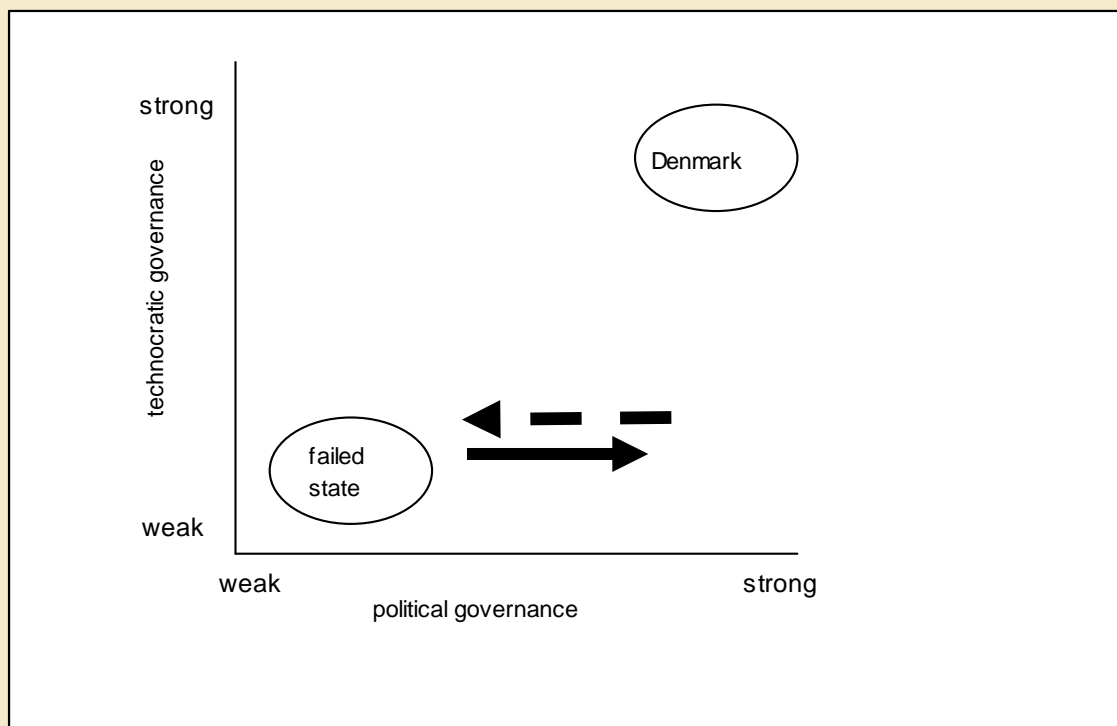
# The democratic road to development

- Similarly, externally driven political reform may provoke technocratic reform and promote growth



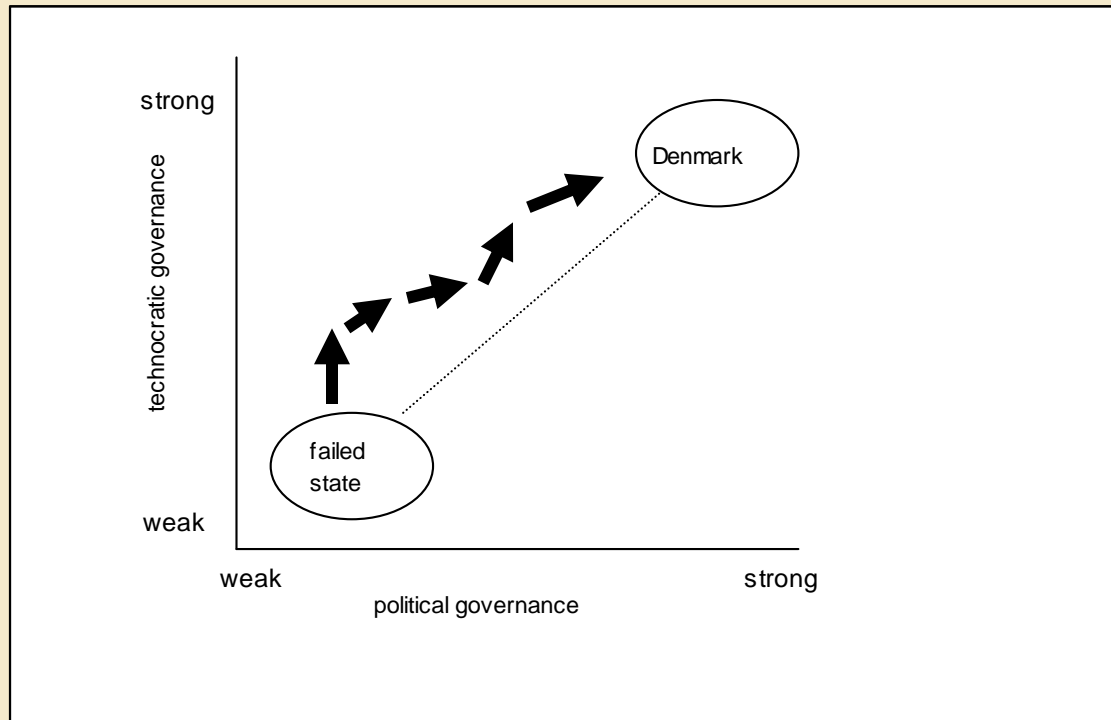
# The democratic road to development

- But just as well be undermined by lack of progress on the technocratic and economic front



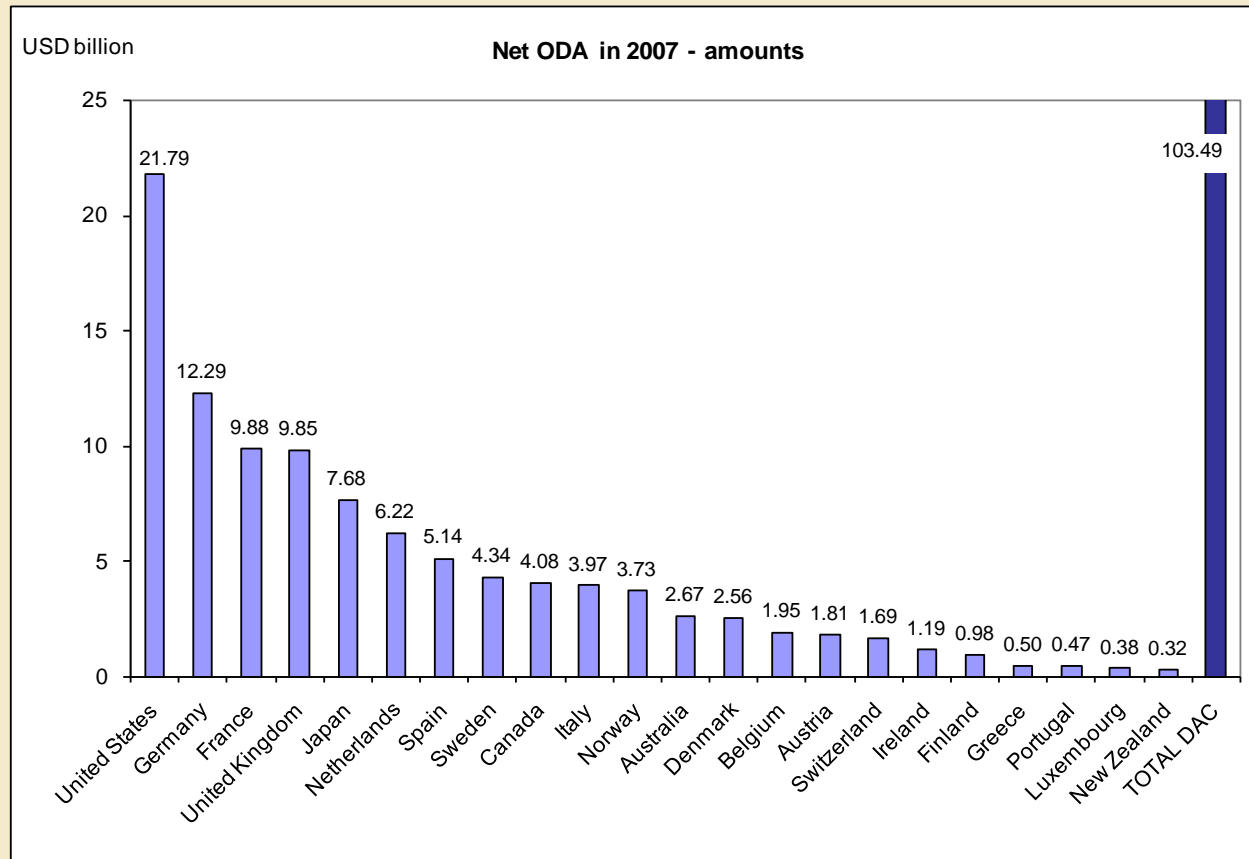
# A checkered itinerary may be the fastest

- Typically using a “northwestern passage”

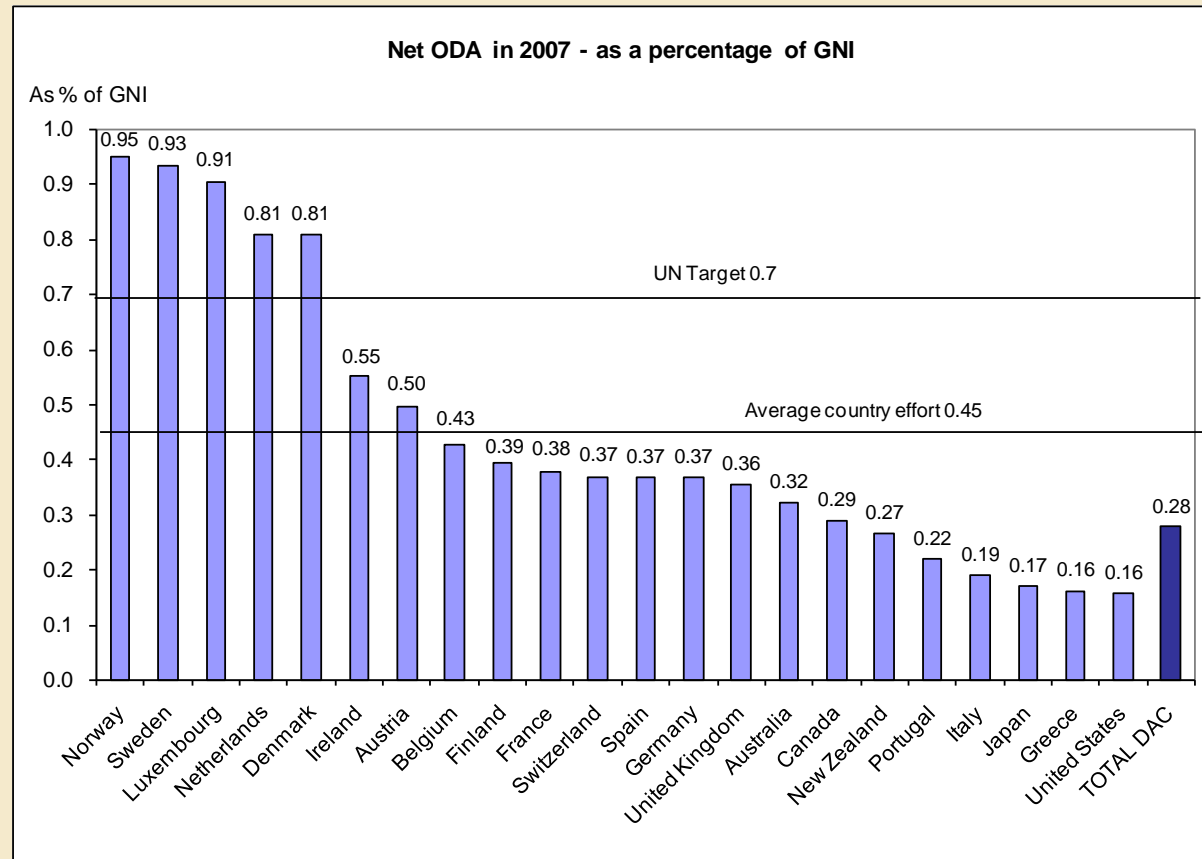


# Assignment 1

- The following slides contain statistical information on aid flows
- Assignment: comment on these statistics from the position of Belgium as a bilateral donor







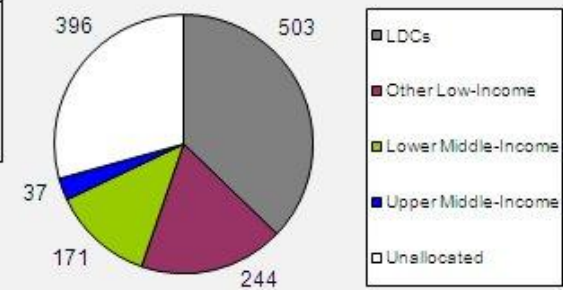
### BELGIUM

Gross Bilateral ODA, 2006-07 average, unless otherwise shown

Net ODA	2006	2007	Change 2006/07
Current (USD m)	1 978	1 953	-1.3%
Constant (2006 USD m)	1 978	1 756	-11.2%
In Euro (million)	1 576	1 427	-9.5%
ODA/GNI	0.50%	0.43%	
Bilateral share	69%	63%	

#### By Income Group (USD m)

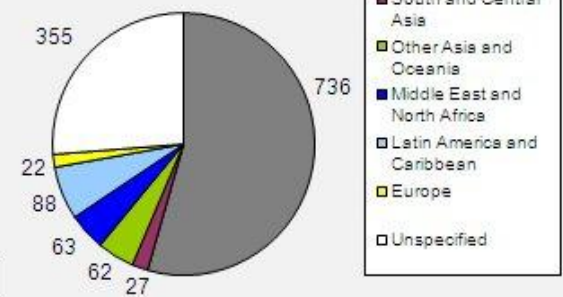
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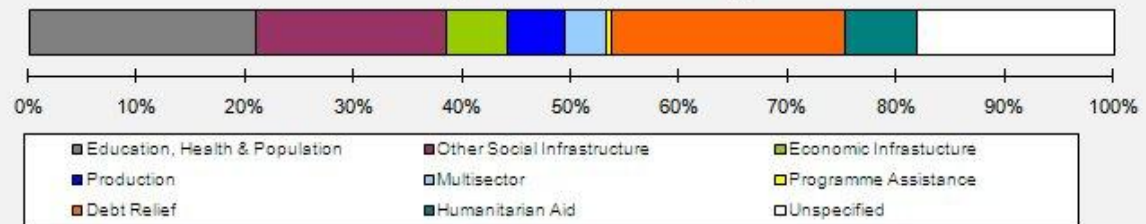
#### Top Ten Recipients of Gross ODA (USD million)

1 Congo, Dem. Rep.	220
2 Nigeria	99
3 Cameroon	79
4 Rwanda	39
5 Burundi	31
6 Senegal	23
7 Ecuador	21
8 Viet Nam	20
9 South Africa	20
10 Mozambique	18

#### By Region (USD m)



#### By Sector



Source: OECD - DAC ; [www.oecd.org/dac/stats](http://www.oecd.org/dac/stats)

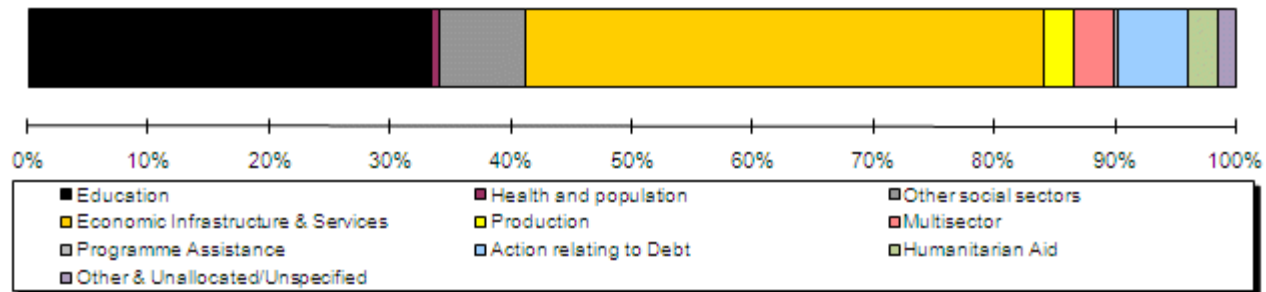
## Algeria

Receipts	2005	2006	2007
Net ODA (USD million)	371	208	390
Bilateral share (gross ODA)	81%	102%	76%
Net ODA / GNI	0.4%	0.2%	0.3%
Net Private flows (USD million)	- 231	304	1 901

For reference	2005	2006	2007
Population (million)	32.9	33.4	33.9
GNI per capita (Atlas USD)	2 720	3 110	3 620

Top Ten Donors of gross ODA (2006-07 average)	(USD m)
1 France	225
2 Spain	98
3 EC	67
4 Belgium	16
5 Arab countries	15
6 Germany	11
7 Italy	8
8 Japan	7
9 Canada	3
10 Korea	2

Bilateral ODA by Sector (2006-07)



Sources: OECD, World Bank. [www.oecd.org/dac/stats](http://www.oecd.org/dac/stats)

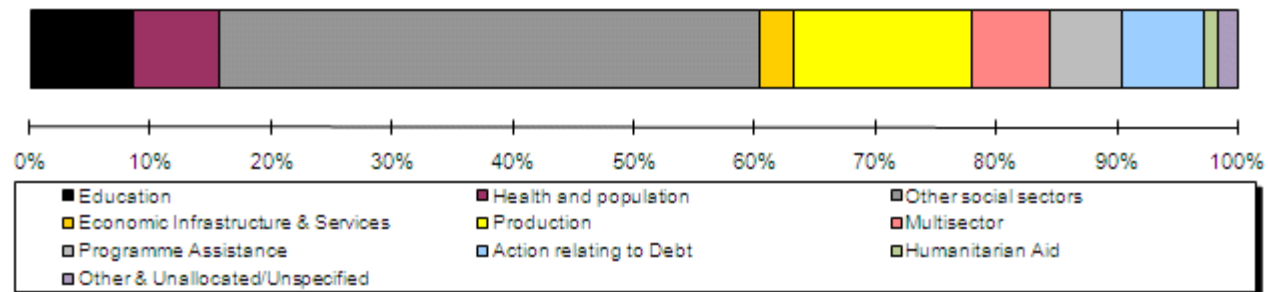
## Bolivia

Receipts	2005	2006	2007
Net ODA (USD million)	646	844	476
Bilateral share (gross ODA)	68%	68%	76%
Net ODA / GNI	7.0%	7.7%	3.7%
Net Private flows (USD million)	43	123	153

For reference	2005	2006	2007
Population (million)	9.2	9.4	9.5
GNI per capita (Atlas USD)	1 020	1 110	1 260

Top Ten Donors of gross ODA (2006-07 average)	(USD m)
1 IDA	781
2 IDB Sp.Fund	644
3 United States	158
4 IMF (SAF,ESAF,PRGF)	118
5 Japan	69
6 Spain	66
7 EC	48
8 Germany	43
9 Netherlands	41
10 Denmark	30

Bilateral ODA by Sector (2006-07)



Sources: OECD, World Bank, [www.oecd.org/dac/stats](http://www.oecd.org/dac/stats)

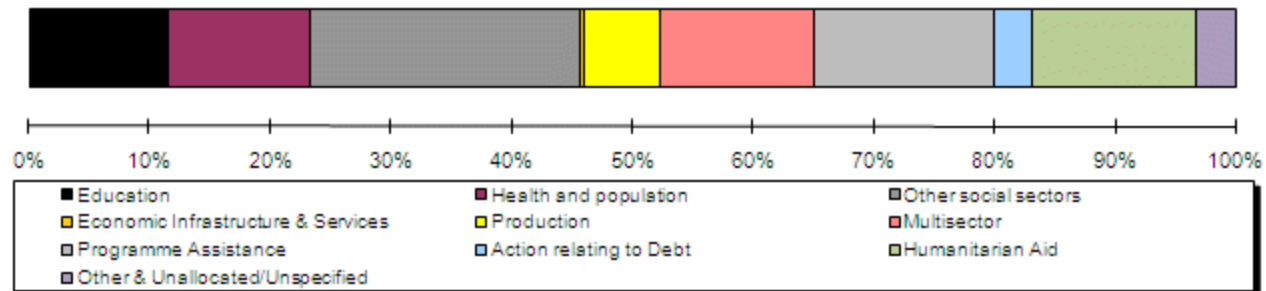
## Niger

Receipts	2005	2006	2007
Net ODA (USD million)	520	514	542
Bilateral share (gross ODA)	49%	46%	43%
Net ODA / GNI	15.3%	13.9%	12.8%
Net Private flows (USD million)	- 118	- 924	- 217

For reference	2005	2006	2007
Population (million)	13.3	13.7	14.2
GNI per capita (Atlas USD)	250	270	280

Top Ten Donors of gross ODA (2006-07 average)	(USD m)
1 IDA	569
2 AfDF	120
3 EC	103
4 France	82
5 IMF (SAF,ESAF,PRGF)	67
6 United States	36
7 Germany	21
8 Arab agencies	21
9 Japan	20
10 Belgium	18

Bilateral ODA by Sector (2006-07)



Sources: OECD, World Bank. [www.oecd.org/dac/stats](http://www.oecd.org/dac/stats)

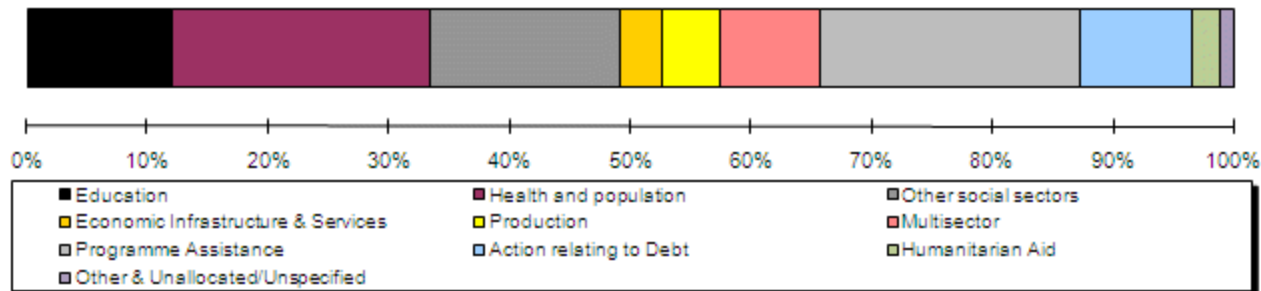
## Rwanda

Receipts	2005	2006	2007
Net ODA (USD million)	578	586	713
Bilateral share (gross ODA)	49%	55%	53%
Net ODA / GNI	24.6%	20.5%	21.6%
Net Private flows (USD million)	- 7	- 34	6

For reference	2005	2006	2007
Population (million)	9.2	9.5	9.7
GNI per capita (Atlas USD)	250	280	320

Top Ten Donors of gross ODA (2006-07 average) (USD m)	
1 IDA	517
2 AfDF	149
3 United Kingdom	95
4 United States	84
5 EC	75
6 France	55
7 Global Fund	45
8 IMF (SAF,ESAF,PRGF)	42
9 Belgium	39
10 Netherlands	26

Bilateral ODA by Sector (2006-07)



Sources: OECD, World Bank. [www.oecd.org/dac/stats](http://www.oecd.org/dac/stats)

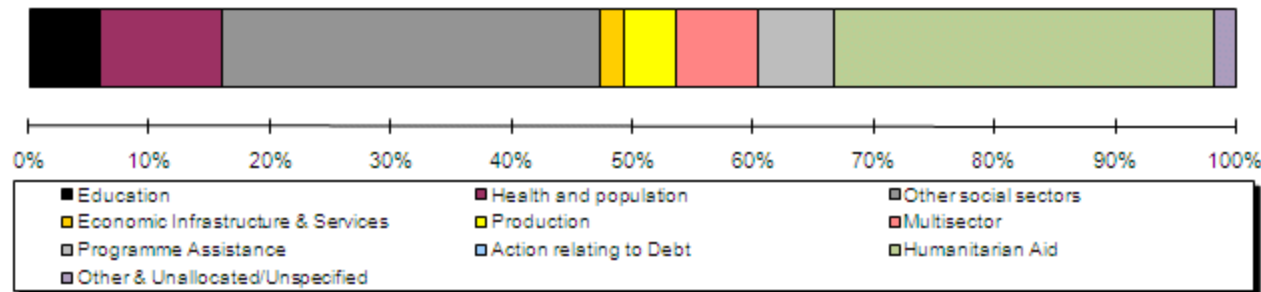
### Palestinian Adm. Areas

Receipts	2005	2006	2007
Net ODA (USD million)	1 117	1 450	1 868
Bilateral share (gross ODA)	53%	54%	46%
Net ODA / GNI	25.3%	34.6%	44.6%
Net Private flows (USD million)	21	- 19	- 9

For reference	2005	2006	2007
Population (million)	3.6	3.8	3.9
GNI per capita (Atlas USD)	1 230	..	..

Top Ten Donors of gross ODA (2006-07 average)	(USD m)
1 UNRWA	433
2 EC	397
3 United States	209
4 Norway	97
5 Germany	72
6 Japan	63
7 Spain	56
8 Sweden	53
9 France	48
10 Canada	38

Bilateral ODA by Sector (2006-07)



Sources: OECD, World Bank. [www.oecd.org/dac/stats](http://www.oecd.org/dac/stats)

## Assignment 2

- Read the following slides on the geographical and sectoral focus of Belgian development aid, and answer the following questions:
- Question 1: should Belgian aid be more focused geographically, and which criteria should be used to eliminate countries?
- Question 2: Belgium is engaged in a major effort to reduce the number of sectors it is involved in in every country. What might be the advantages?



## How is Belgium doing? (countries)

- Since 2003 the number of partner countries has been held in check at 18
  - in 2005-2006 Belgium is among the 10 highest ranked donors in 9/18
  - Yet some bilateral aid is still allocated outside
  - in 2006 only 71% of bilateral aid to top 50 recipients went to partner countries
- And most problematically: the major share of bilateral aid is not subject to DGDC country programming

## continued...

- As a consequence, DGDC country-programmes are modest
  - in coming years bilateral aid programmed by DGDC is on average €8 mio/yr in 15/18 countries
  - DRC: €65/yr, Rwanda: €35 mio/yr, Burundi: €20 mio/yr
- Furthermore the list has been subject to frequent change over time
  - since early 1990s 32 different countries/regions have been partners at one time or another
  - without an effective exit strategy when they were dropped
- And the present list is not wholly convincing
  - 7/18 are not poor (>LIC in 2006)

## How is Belgium doing? (sectors)

- 1999 International Co-operation Law restricts Belgian bilateral ODA to five sectors
  - primary and reproductive health
  - education and training
  - agriculture and food security
  - small-scale infrastructure
  - conflict prevention

## continued...

- And several cross-cutting thematic issues
  - gender
  - environment
  - social economy
  - child rights (2005 amendment)
- In practice social sectors are strongly favoured
- In international comparisons, Belgium does not come out consistently as either very focused or unfocused, but serious empirical and conceptual problems limit quality of such comparisons



**Bedankt**

**Merci**

**[www.ua.ac.be/dev/bos](http://www.ua.ac.be/dev/bos)  
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[robrecht.renard@ua.ac.be](mailto:robrecht.renard@ua.ac.be)**