



# The evolution in aid thinking and practice

Nadia Molenaers  
Robrecht Renard

## **BTC staff training seminar**

Brussel 1&2 September 2010

## TODAY'S SESSIONS

*Morning session*

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

*Afternoon session*

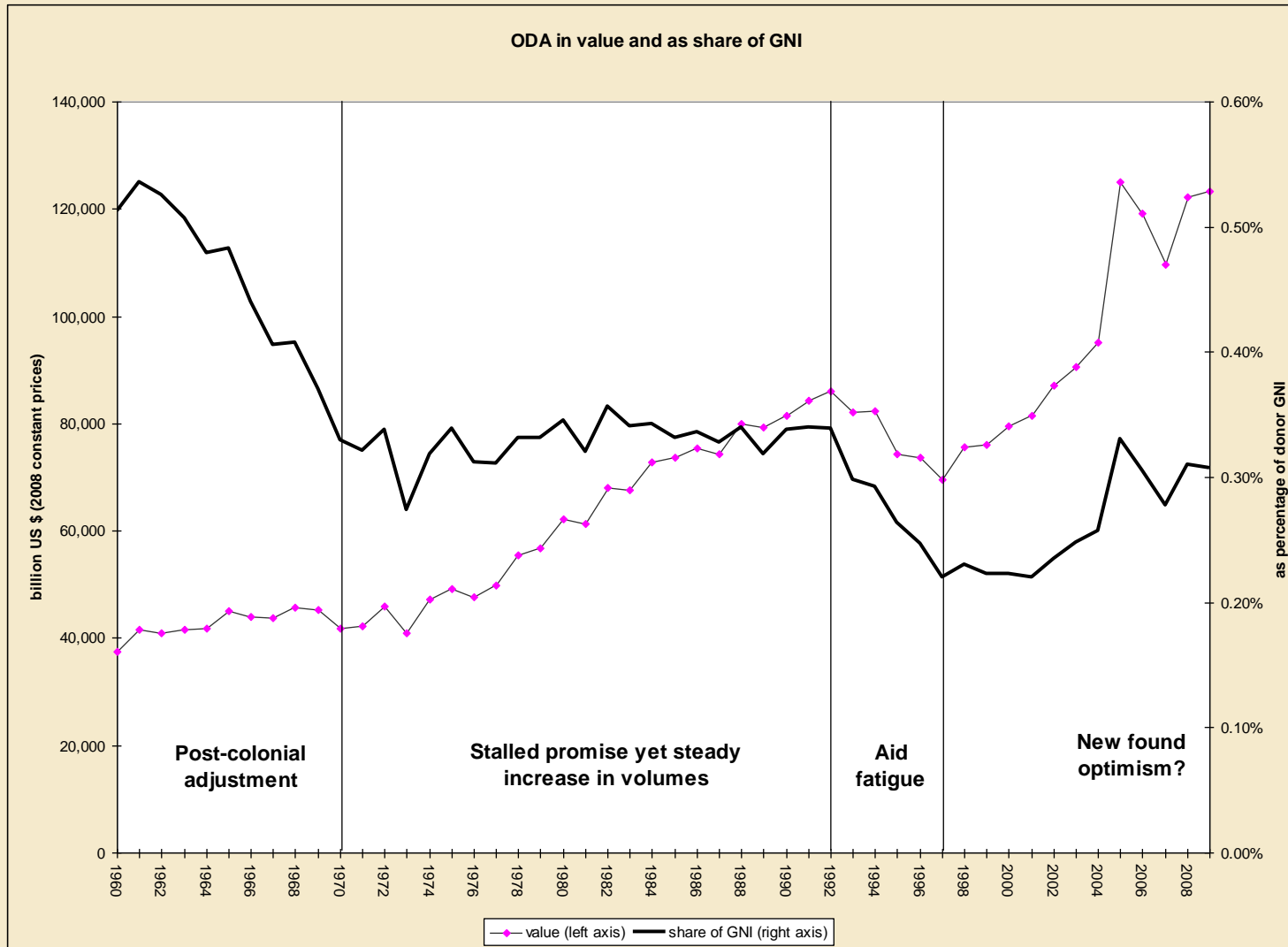
- III. A reality check
- IV. An assessment

# **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
  - the share of private aid is on the rise
- 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
  - aid effectiveness
  - donor motivations



**BELGIUM**

Gross Bilateral ODA, 2007-08 average, unless otherwise shown

Net ODA	2007	2008	Change 2007/08
Current (USD m)	1 951	2 386	22.3%
Constant (2007 USD m)	1 951	2 219	13.7%
In Euro (million)	1 425	1 654	16.1%
ODA/GNI	0.43%	0.48%	
Bilateral share	63%	58%	

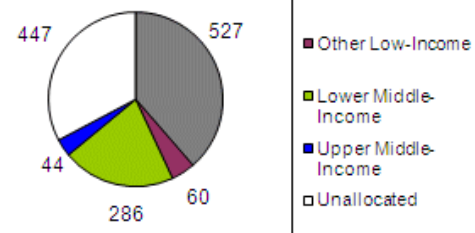
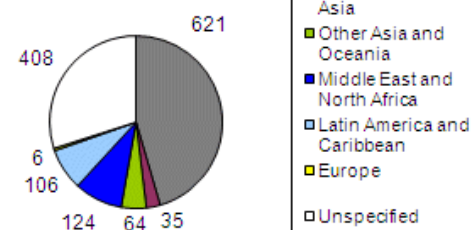
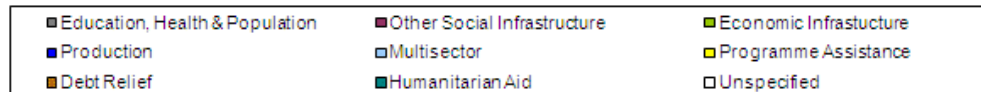
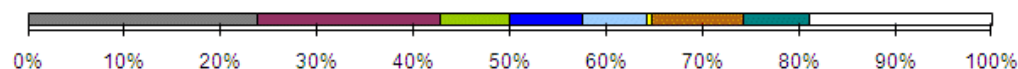
**Top Ten Recipients of Gross ODA (USD million)**

1 Congo, Dem. Rep.	192
2 Rwanda	54
3 Iraq	53
4 Cameroon	46
5 Burundi	43
6 Palestinian Adm. Areas	25
7 Mozambique	25
8 Viet Nam	25
9 Peru	24
10 Senegal	22

Memo: Share of gross bilateral ODA	
Top 5 recipients	28%
Top 10 recipients	37%
Top 20 recipients	50%

**By Income Group (USD m)**

Clockwise from top


**By Region (USD m)**

**By Sector**

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

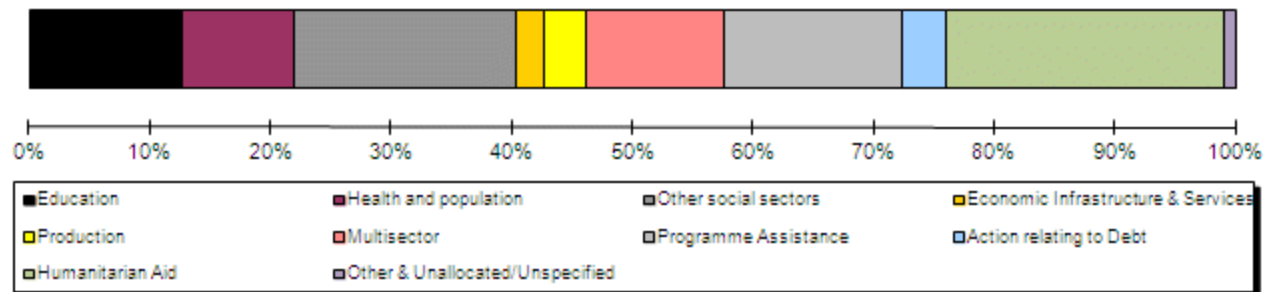
## Burundi

Receipts	2006	2007	2008
Net ODA (USD million)	410	473	509
Bilateral share (gross ODA)	54%	42%	50%
Net ODA / GNI	45.1%	48.6%	43.9%
Net Private flows (USD million)	-7	11	-38

For reference	2006	2007	2008
Population (million)	7.6	7.8	8.1
GNI per capita (Atlas USD)	110	120	140

Top Ten Donors of gross ODA (2007-08 average)	(USD m)
1 EC	103
2 IDA	95
3 Belgium	43
4 United States	28
5 Netherlands	28
6 Germany	23
7 Norway	23
8 France	19
9 Global Fund	19
10 Japan	17

**Bilateral ODA by Sector (2007-08)**



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

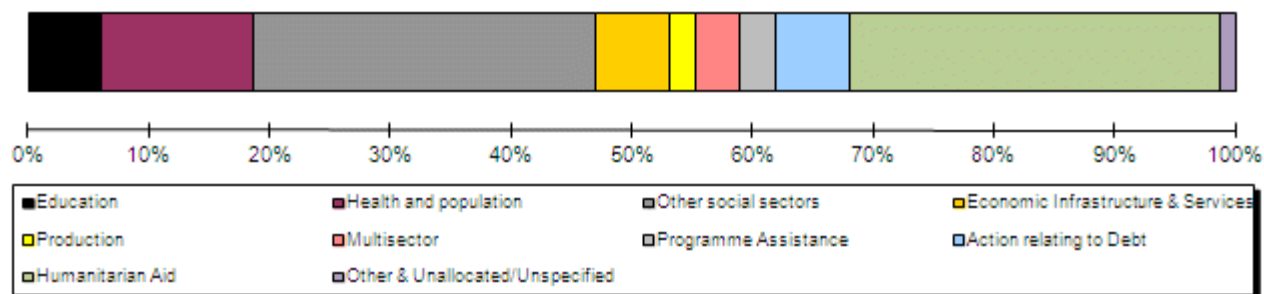
## Congo, Dem. Rep.

Receipts	2006	2007	2008
Net ODA (USD million)	2 043	1 241	1 610
Bilateral share (gross ODA)	73%	64%	59%
Net ODA / GNI	24.6%	13.3%	15.6%
Net Private flows (USD million)	- 147	- 26	0

For reference	2006	2007	2008
Population (million)	60.6	62.4	64.2
GNI per capita (Atlas USD)	130	140	150

Top Ten Donors of gross ODA (2007-08 average)	(USD m)
1 IDA	297
2 Belgium	192
3 EC	191
4 United States	165
5 United Kingdom	157
6 Germany	68
7 Sweden	51
8 UNICEF	51
9 Netherlands	49
10 Global Fund	46

Bilateral ODA by Sector (2007-08)



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



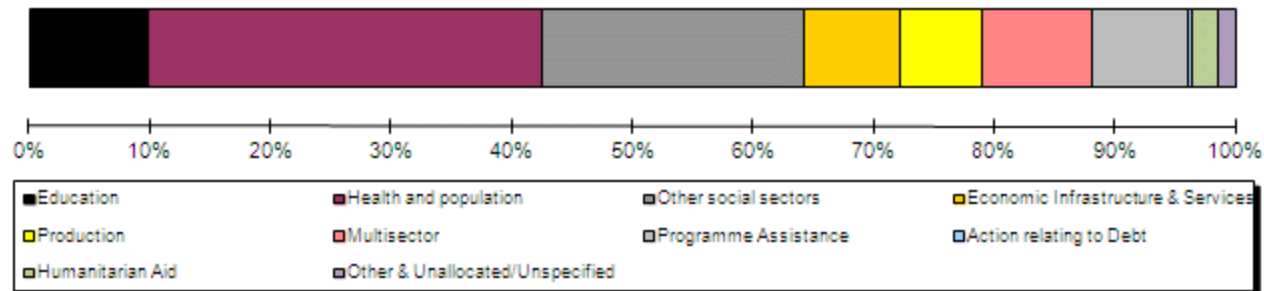
## Rwanda

Receipts	2006	2007	2008
Net ODA (USD million)	581	722	931
Bilateral share (gross ODA)	55%	52%	49%
Net ODA / GNI	20.7%	21.3%	21.1%
Net Private flows (USD million)	- 24	47	10

For reference	2006	2007	2008
Population (million)	9.2	9.5	9.7
GNI per capita (Atlas USD)	290	330	410

Top Ten Donors of gross ODA (2007-08 average)	(USD m)
1 IDA	121
2 United States	104
3 United Kingdom	97
4 EC	93
5 AfDF	68
6 Global Fund	59
7 Belgium	54
8 Netherlands	33
9 Germany	24
10 IFAD	20

Bilateral ODA by Sector (2007-08)



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

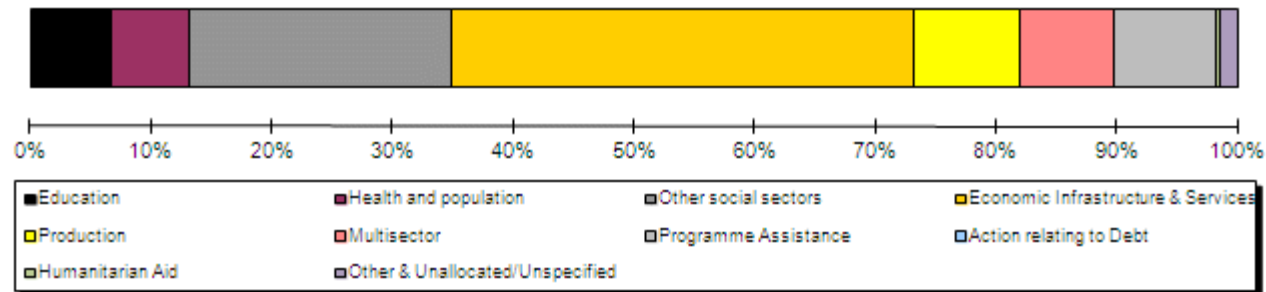
### Viet Nam

Receipts	2006	2007	2008
Net ODA (USD million)	1 845	2 511	2 552
Bilateral share (gross ODA)	72%	60%	65%
Net ODA / GNI	3.2%	3.8%	2.9%
Net Private flows (USD million)	1 822	3 127	3 435

For reference	2006	2007	2008
Population (million)	84.1	85.2	86.2
GNI per capita (Atlas USD)	690	770	890

Top Ten Donors of gross ODA (2007-08 average)	(USD m)
1 Japan	780
2 IDA	677
3 AsDF	223
4 France	196
5 United Kingdom	112
6 Germany	110
7 Denmark	82
8 Australia	71
9 EC	68
10 United States	55

Bilateral ODA by Sector (2007-08)



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

# 1. Aid: why

## Apparent irrationality

- States are responsible for their own security and well-being
- Why provide scarce public resources to promote 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

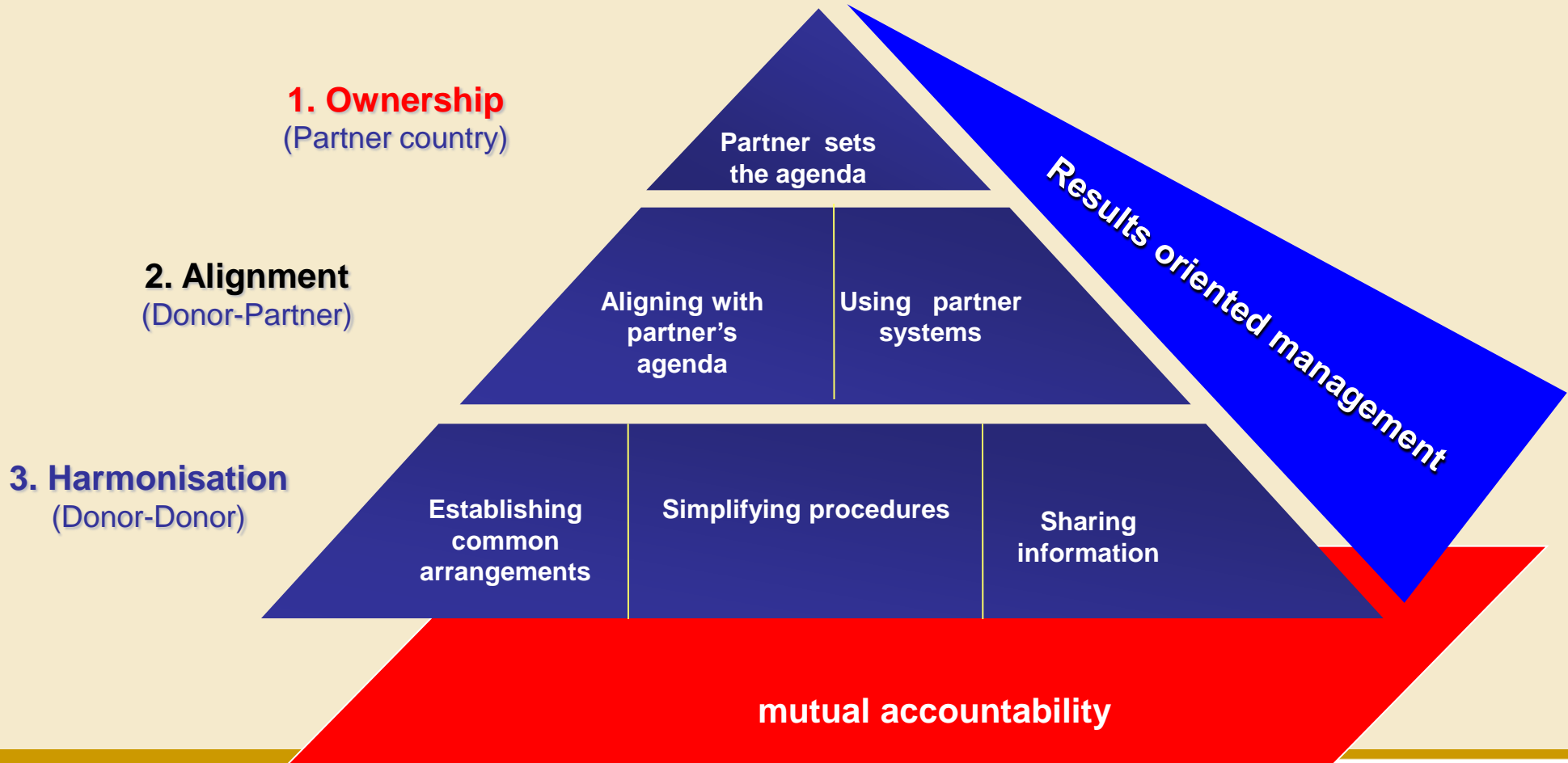
## Aid can

- Expand activities/capacities of a recipient government
- 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

## 4. A classification of aid instruments

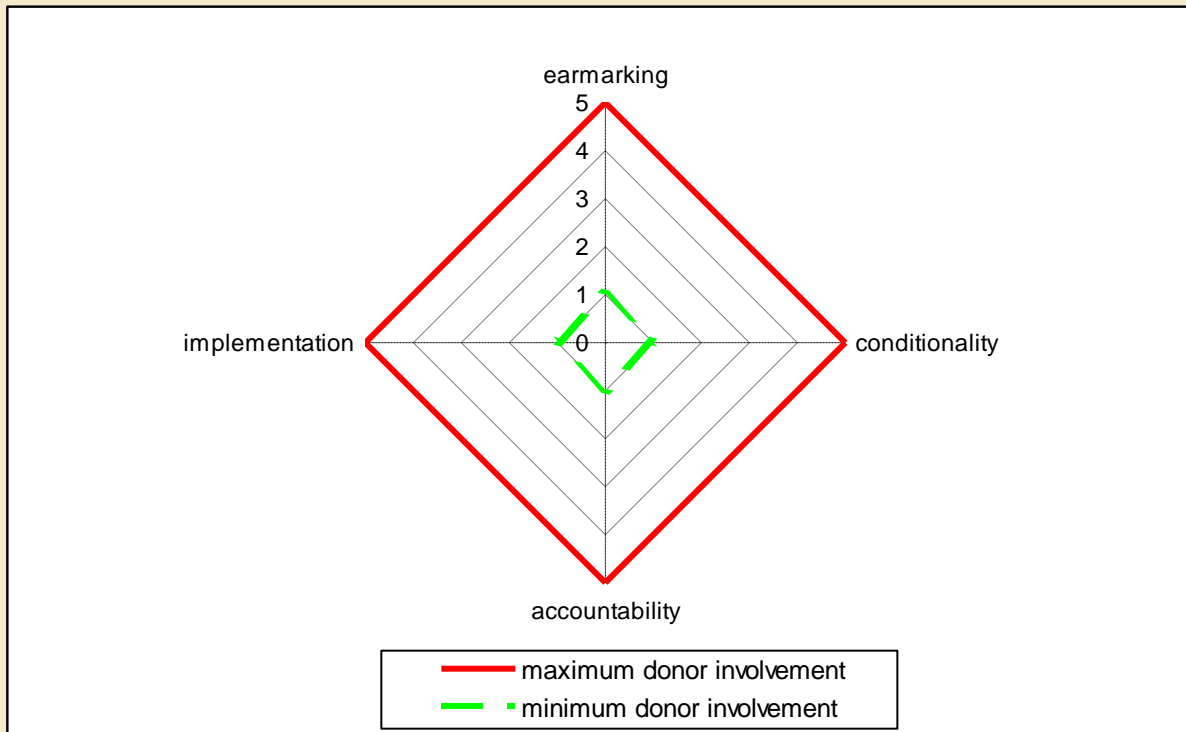
Four characteristics of aid

1. Earmarking
2. Conditionality
3. Accountability
4. Implementation

Ordinal scale

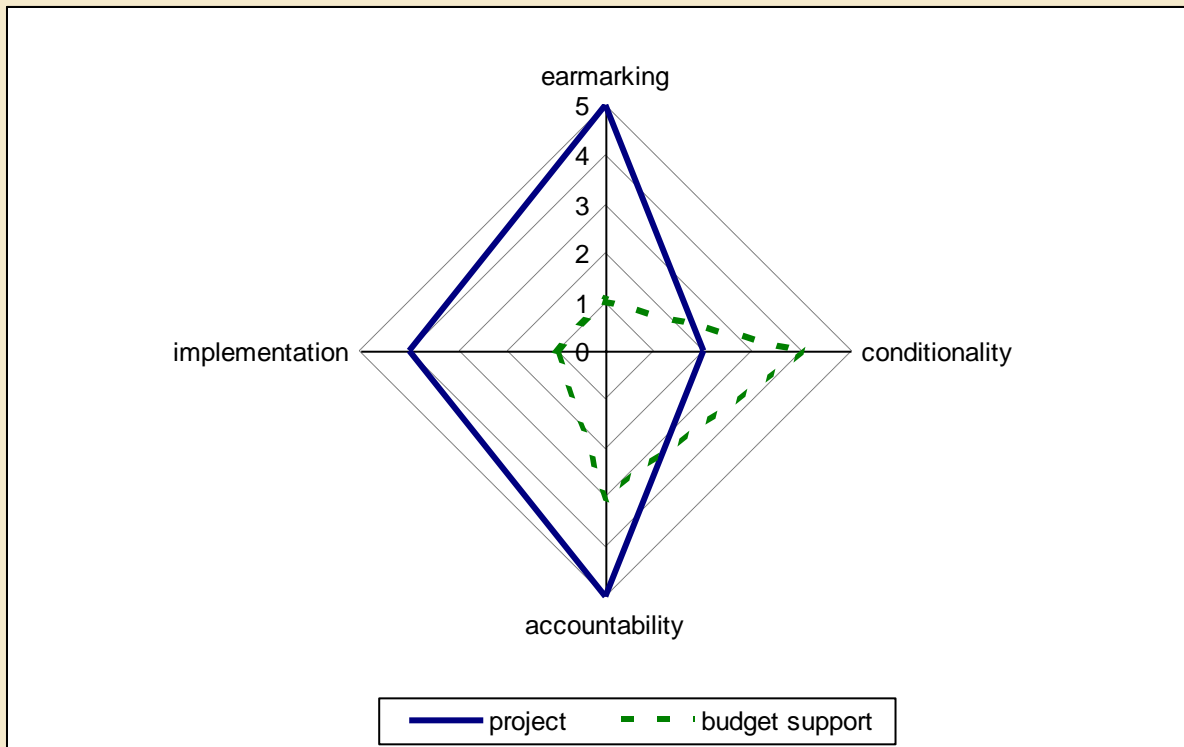
- from 1 to 5
- increasing donor control

# 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

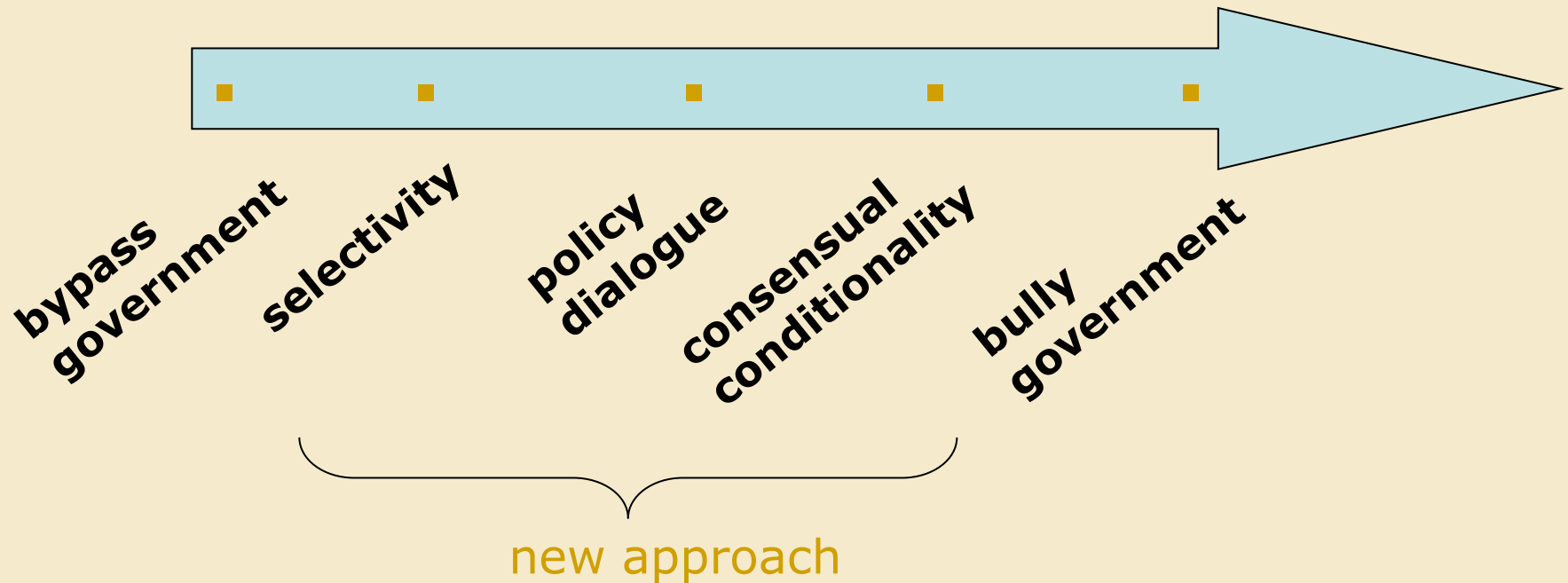
- Act micro, but think macro
- Projects as part of a donor portfolio
  - GBS and SBS
  - SWAPs
- Projects as part of recipient public policy
  - Produce innovative insights, learning linked to informing/influencing higher levels (policy influencing or policy making)
  - Are integrated in wider policy processes
  - Stimulate the use evidence based expertise smartly
- Align and harmonise
  - PIUs and donor driven TA no longer the default option

# 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 of donor sins

## 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
- **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
- No earmarking of funds and limited supervision over use

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

# 1. 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%	35%



## Progress indicators for donors

	Indicator	2005 baseline	2007 score	2010 target
3	Aid flows are recorded in countries' budgets	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

## Progress indicators for donors (cont'd)

	Indicator	2005 baseline	2007 score	2010 target
7	Aid is more predictable	41%	46%	71%
8	Aid is untied	75%	88%	Progress over time
9	Donors use co-ordinated mechanisms for aid delivery	43%	47%	66%
10a	Donors co-ordinate their missions	18%	21%	40%
10b	Donors co-ordinate their country studies	42%	44%	66%
12	Mechanisms for mutual accountability	22%	26%	100%

## 2. Donor commitment to the NAA

- All important bilateral donors signed the Paris Declaration
- New aid approach is dominant in discourse at DAC and is supported by the World Bank
- The like-minded countries (Nordics, Netherlands, UK, Switzerland, Canada,...) remain fully committed, but have become less dogmatic about GBS
- Donors with fragmented development cooperation structures have more difficulties in moving towards NAA (Spain, Italy)
- Two big donors (US, Japan) only seem mildly interested, two others (France, Germany) not in vanguard

- Commitment of donors visible beyond PD indicators:
  - Decentralization efforts
  - Increasing BS coordination at HQ (EU level)
  - Reforming the funding of indirect cooperation
  - Booming of governance assessment tools
- Evolutions in PD interpretations
  - Hardline resultsorientation => a hands-off approach to governance (Cash on Delivery)
  - Soft process approach => a hands-on approach to governance

## **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

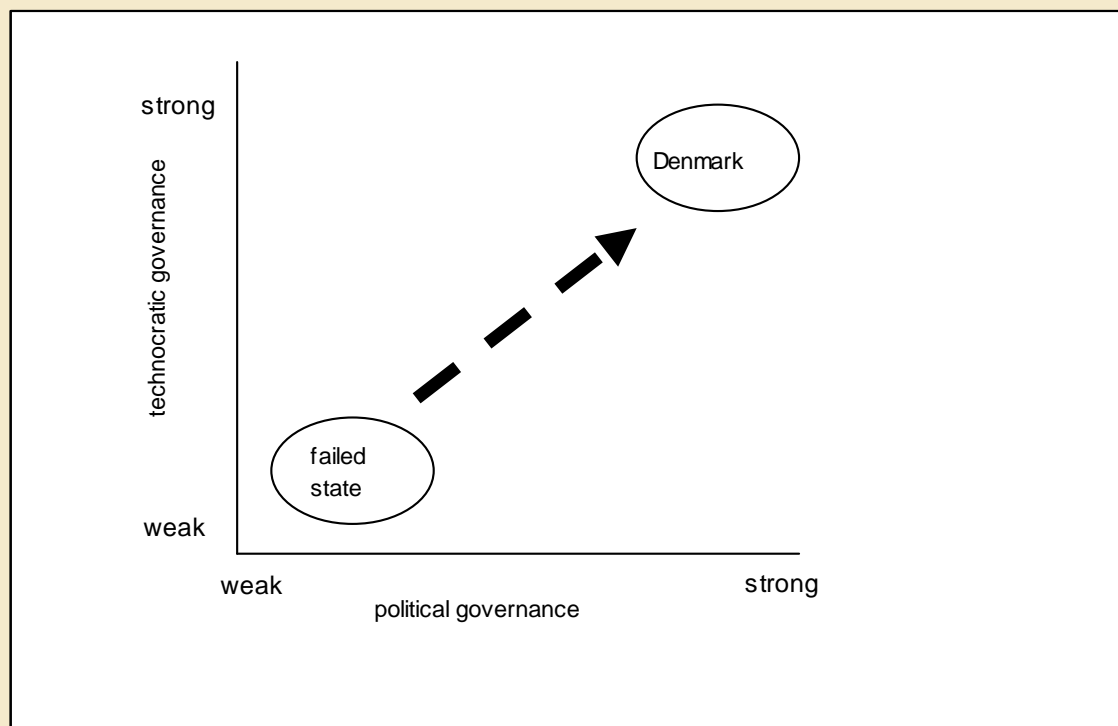
## Development maximisers?

- 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



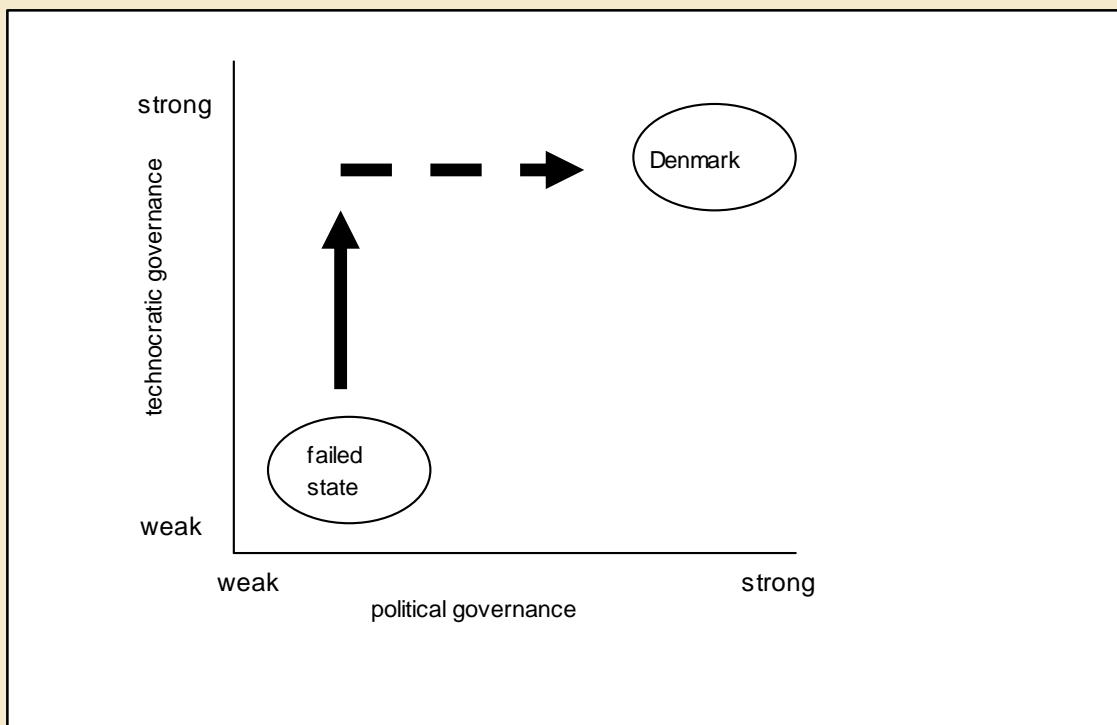
## 2. Getting to Denmark

- Balanced progress along a straight line may not be realistic



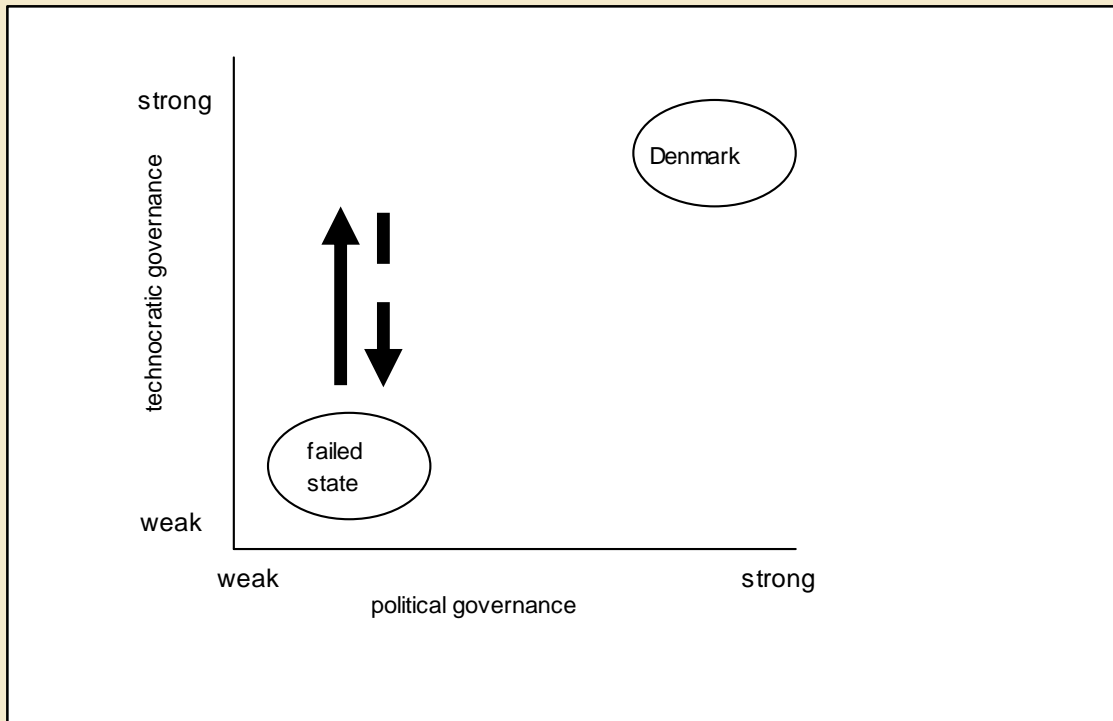
# The technocratic road to development

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



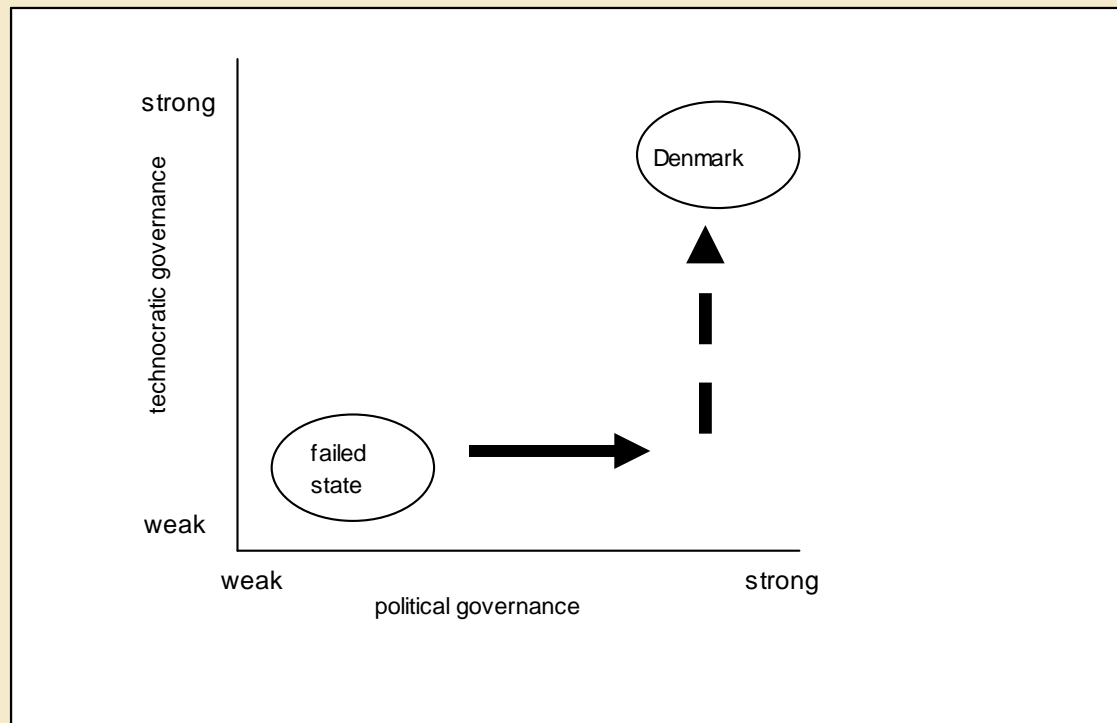
# The technocratic road to development

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



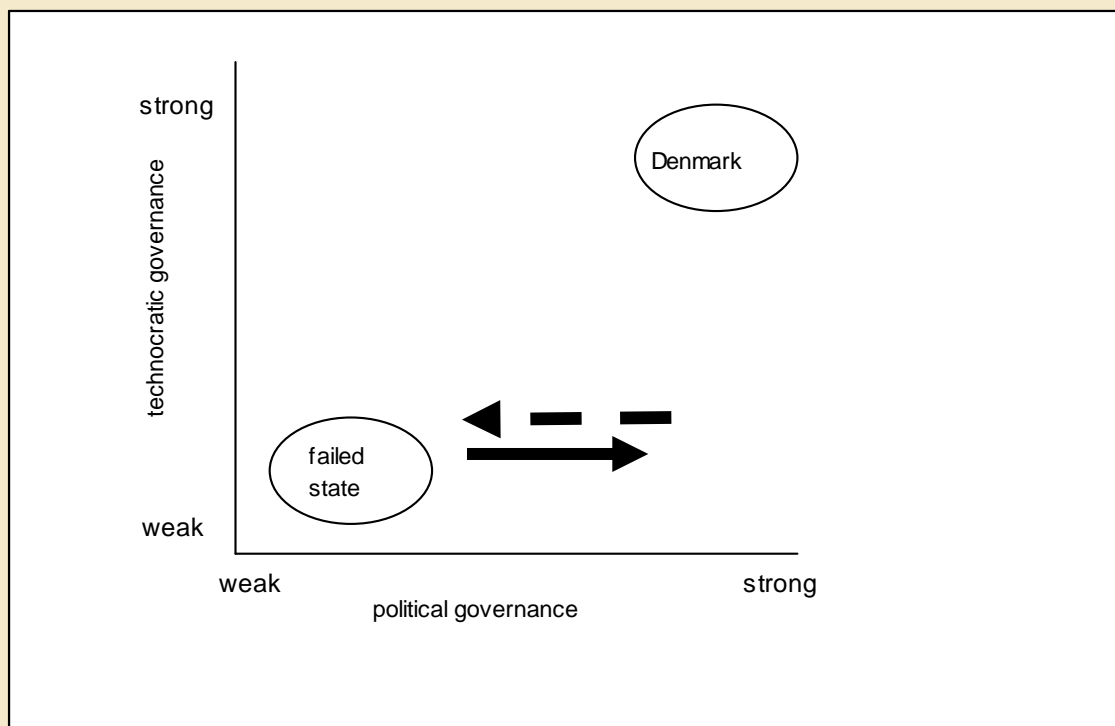
# The democratic road to development

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

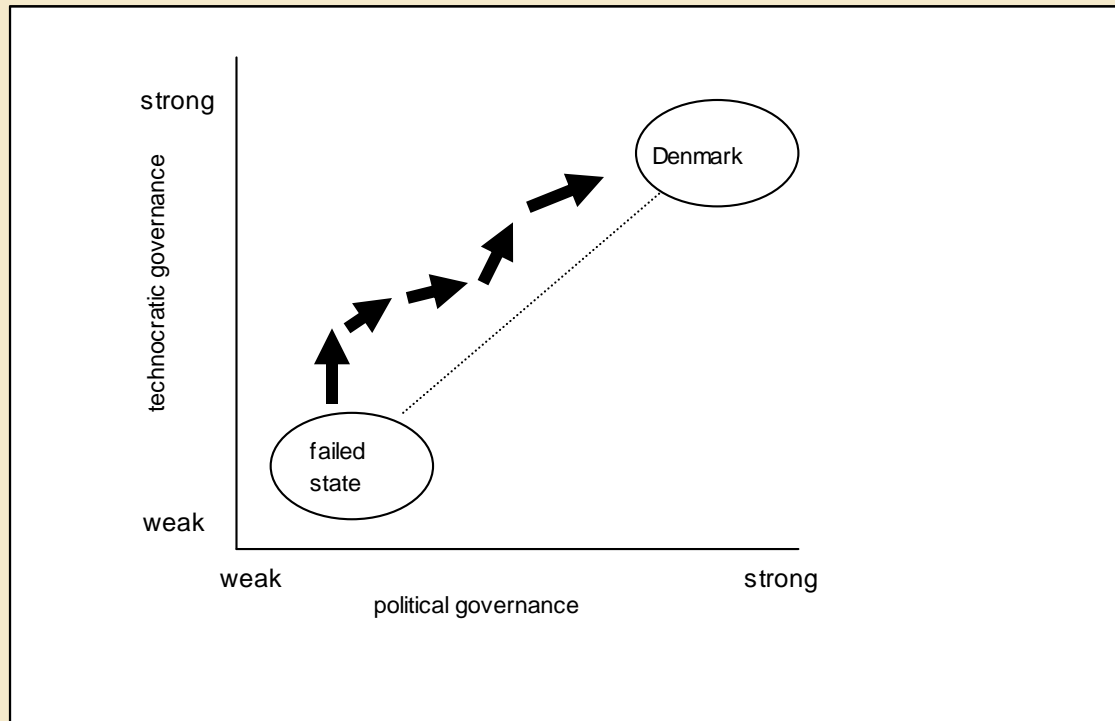


# The democratic road to development

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



# A checkered itinerary may be the fastest





**Bedankt**

**Merci**

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[nadia.molenaers@ua.ac.be](mailto:nadia.molenaers@ua.ac.be)  
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