



The Implementation of the Paris Declaration on Aid Effectiveness: Where Do We Stand and How to Move Forward?

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Is the Paris Declaration desirable?

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Outline

1. History of aid modalities and instruments
2. Insights from the aid effectiveness debate
3. The DAC 2005 Paris Declaration
4. From rhetoric to reality: where do we stand?

1. History of aid modalities and instruments

- Aid modalities:
 - generic
 - e.g. general budget support (GBS)
- Aid instruments:
 - more concrete
 - e.g. GBS co-financing through the World Bank

A classification of aid instruments

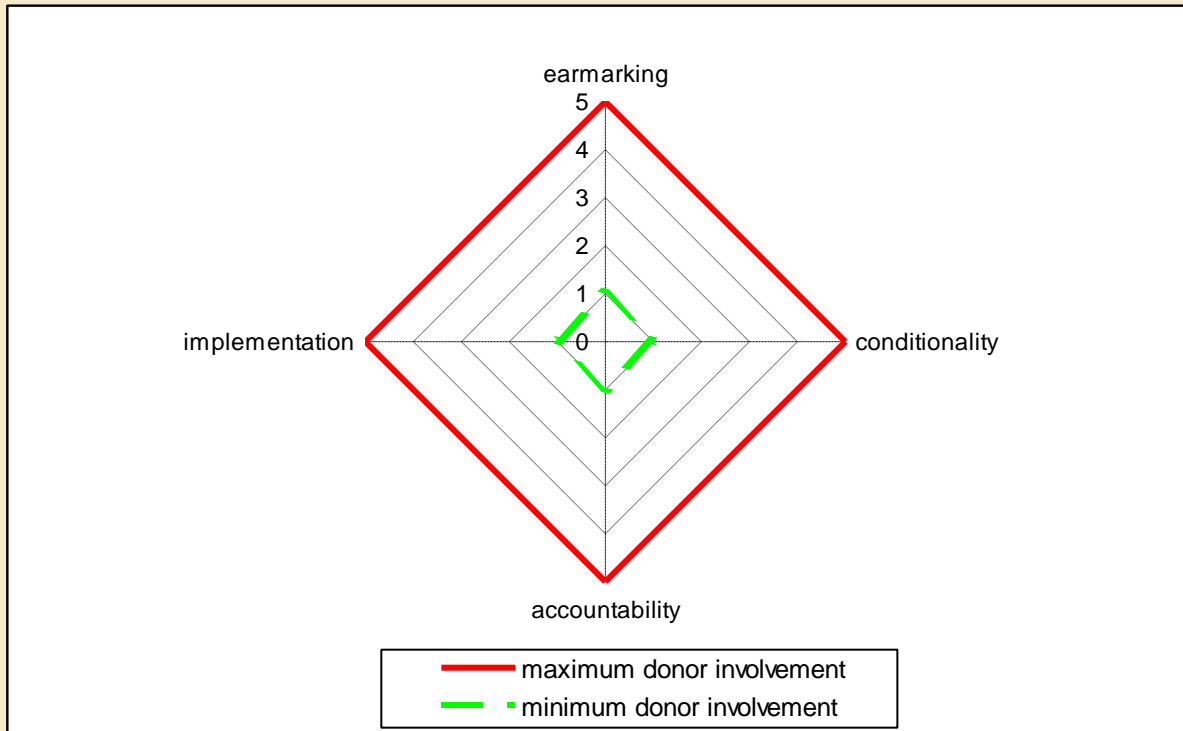
Four characteristics of aid

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

Ordinal scale

- from 1 to 5
- increasing donor control

Aid characteristics diamond



1. Earmarking

- [1] none
- [2] cross-sectoral
 - exclusion lists
 - pro-poor spending
- [3] sector
- [4] within sector
- [5] project

2. Conditionality

- [1] none
- [2] project conditions
- [3] sector
- [4] macroeconomic and social
- [5] political

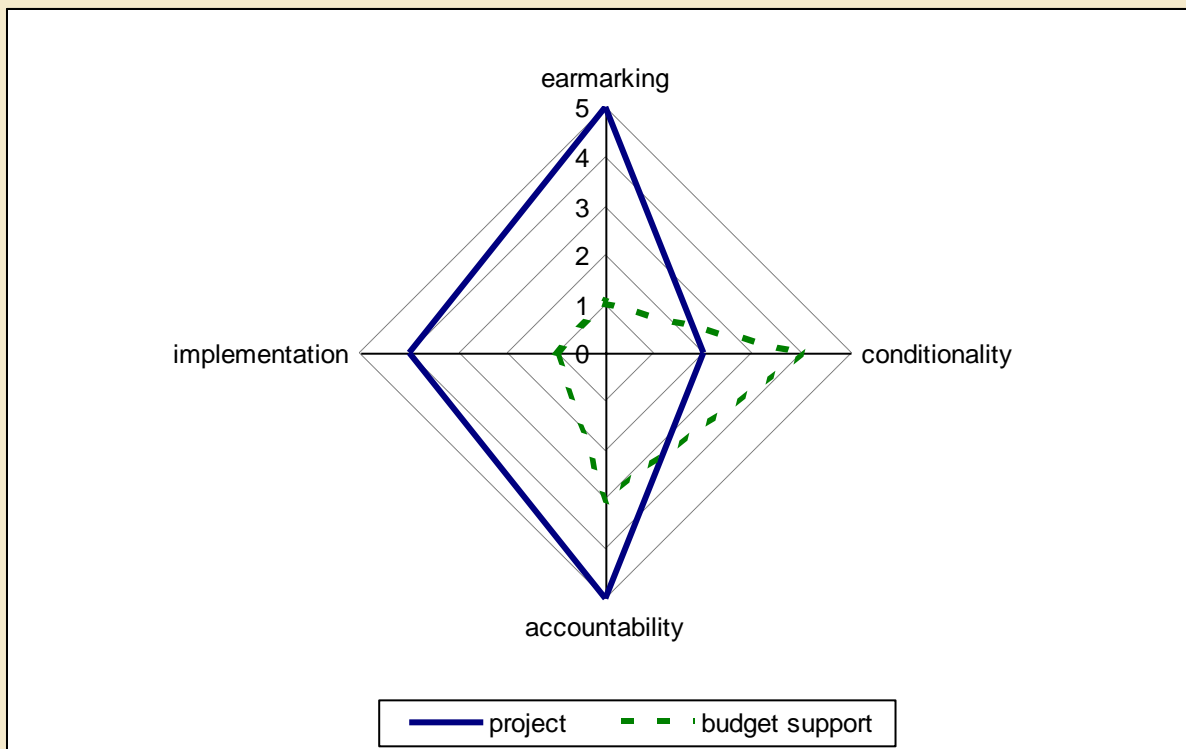
3. Accountability

- [1] none
- [2] formalistic
- [3] government system
- [4] mixed systems
- [5] donor systems

4. Implementation

- [1] regular government systems
- [2] donor corrected government systems
- [3] specially created public agency
- [4] co-management
- [5] donor systems


Aid characteristics diamond



Desired features of the new aid architecture

- Reduced earmarking
- Less donor involvement in implementation
- A shift in conditionalities
 - from ex ante to ex post (including selectivity)
 - from input to throughput, output and outcome
 - from adversarial to consensual
- New accountability focus
 - within public sector: horizontal
 - towards citizens: downward
 - vis-à-vis donors: vertical, but two-way

2. Insights from the aid effectiveness debate

- Results from project-level evaluations
 - 1/3-1/3-1/3 rule of thumb
 - relatively successful on this count
- Results from macro-econometric research
 - negative or insignificant impact of aid 
- Explaining the micro-macro paradox
 - either the micro results are unreliable
 - or the macro results are unreliable
 - or there are negative externalities at play

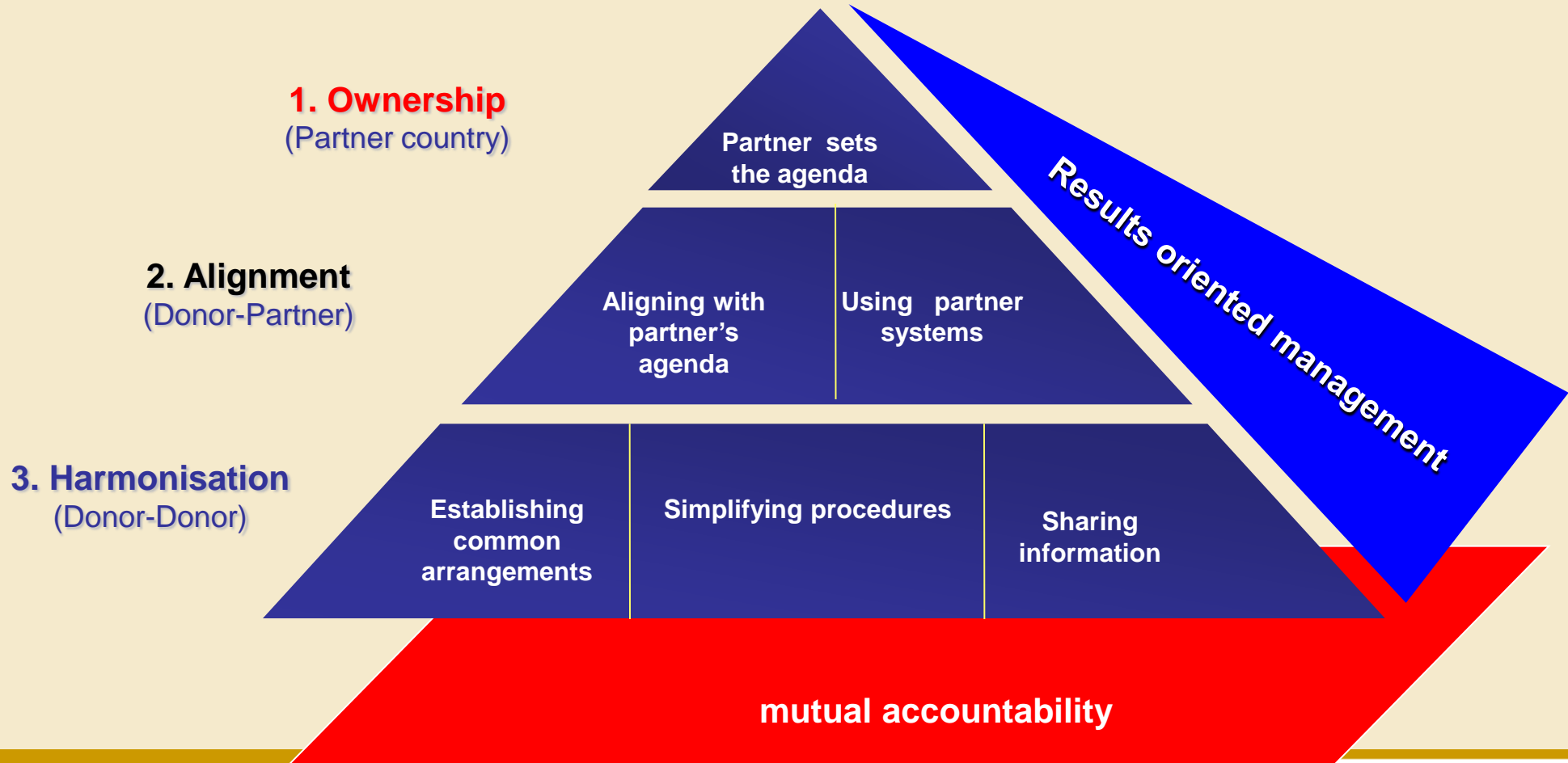
Macro beats micro

- The widely heralded World Bank (1998) publication carried much weight
- Thousands of micro-level evaluations were not perceived as convincing counter-evidence because methodologically flawed and poorly executed
- In addition it was argued that, even if well executed, micro-level evaluations were irrelevant due to
 - fungibility (WYS≠WYG)
 - negative externalities of donor-managed projects

Macro countered

- However some cross-country econometric studies argue that aid does work (Clemens et al. 2004)
- Other studies question the link between aid and policy (Easterly et al. 2004)
- The World Bank's macro-econometric research on aid effectiveness has been criticised by an independent panel of experts (Deaton 2006)
- Last but not least, the NAA is intrinsically difficult to evaluate (see e.g. IDD 2006, Bourguignon and Sundberg 2007, Wood et al. 2008), leaving it open to attacks from its detractors (e.g. Easterly 2008)

3. The DAC 2005 Paris Declaration



The policy prescriptions of the NAA

- Recipient countries are urged to improve their
 - policy priorities (PRSP)
 - PFM systems
 - procurement systems
 - results orientation
- Donors are urged to react by increasingly aligning and harmonizing their aid
- Budget aid is the 'flagship' among new aid modalities

The underlying rationale

- The NAA addresses two fundamental weaknesses of past aid practices:
 - Donor bureaucratic selfishness
 - The flawed efforts to resolve disagreements between donors and recipient governments over policy priorities and governance issues
- And in this sense the Paris Declaration is certainly desirable

Combating bureaucratic selfishness

- Even aid agencies that are focused on 'pure' aid objectives, act selfishly in some respects, e.g. they tend to:
 - proliferate out of a desire for self-gratification ('initiativitis')
 - prefer individual visibility to collective results
 - expand beyond their competence out of corporate self-interest
 - externalise transaction costs to other actors or clients
 - poach national staff and recurrent fiscal resources
- Such selfishness has contributed to a sprawling aid industry with low overall effectiveness
- The Paris Declaration is an effort to address this collective action problem

Addressing donor-recipient disagreements

period	preferred aid modality	major constraint on recipient side addressed
1960-1980	projects	- physical capital - human capital
1980-2000	policy based support	- macroeconomic policies
2000-	budget support	- ownership - governance

Addressing donor-recipient disagreements

period	preferred aid modality	major constraint on recipient side addressed	donor attitude to recipient governments
1960-1980	projects	- physical capital - human capital	bypass
1980-2000	policy based support	- macroeconomic policies	bully
2000-	budget support	- ownership - governance	engage

4. From rhetoric to reality: where do we stand?

- Donor proliferation and fragmentation has been increasing over time (Kharas 2007)
- Although this evolution is due in part to the increase in aid volume and the emergence of new donors, it also suggests how difficult it is to overcome bureaucratic selfishness
- The monitoring of the Paris Declaration (DAC 2008) suggests some slow improvements since 2005

Donors have pledged their commitment

- All important bilateral donors (including many new donors) and many recipient countries signed the Paris Declaration
- New aid architecture is dominant at DAC
- The like-minded countries remain fully committed
- Even some of the skeptics show interest
- But some important donors (US, Japan, China) are moving very slowly, if at all
- In fact, the Paris Declaration is mostly a European affair

DAC monitoring indicators for donors

3. Aid reported on budget
4. TA co-ordinated
- 5a. Use country PFM system
- 5b. Use country procurement system
6. Parallel PIUs avoided
7. Aid predictability
8. Aid untied
9. Programme-Based Approaches (PBAs) used
10. Donor missions and analytical work pooled
12. Mutual accountability assessments in place

	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

	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%

DAC monitoring indicators for recipients

1. Operational development strategies
- 2a. Reliable PFM systems
- 2b. Reliable procurement systems
11. Sound performance assessment

	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%

Use of new aid modalities

Table A.9: How much aid was programme-based? (OECD DAC)
source: OECD/DAC Paris Declaration Monitoring

	Programme-based approaches			Total aid disbursed	Indicator 9		Progress
	Budget support	Other PBAs	Total		2005	2007	
	(USD m)	(USD m)	(USD m)	(USD m)	(for reference)	e = c / d	
	a	b	c = a + b	d		(% points)	
2006/2008 Survey Countries (33 countries)							
Sub-Total	6 192	7 549	13 741	29 463			
weighted avg	21%	26%	47%	100%	43%	47%	+4
country avg					35%	35%	

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Thank you !