



The aid effectiveness debate: are donors learning the lessons?

Parliament of Estonia

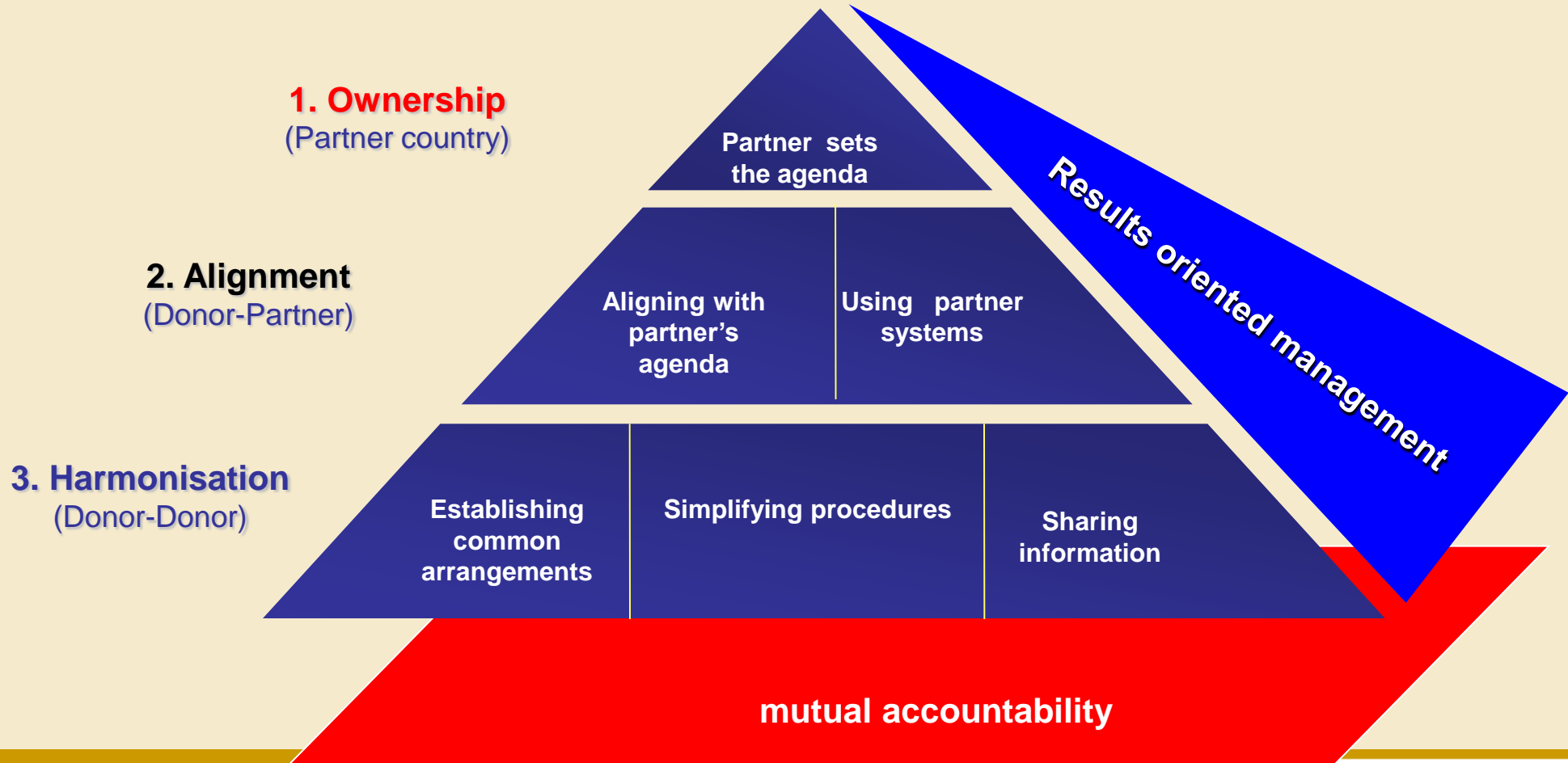
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Outline

1. The 2005 Paris Declaration
2. The lacklustre performance of donors
3. Missing feedback loop
4. Donors in pursuit of too many goals
5. Samaritan's dilemma
6. Warm glow
7. Illustrations
8. Conclusion

1. The 2005 Paris declaration



2. The lacklustre performance of donors

- Results from the monitoring of the Paris Declaration do not justify much optimism
- The lack of zeal in applying the Paris Declaration is not wholly surprising
- We discuss four possible causes
 - missing feedback loop
 - donors in pursuit of too many goals
 - Samaritan's dilemma
 - warm glow effects

3. Missing feedback loop

- Beneficiaries have no vote in donor countries
- Missing information makes donor public opinion easily manipulated by
 - political parties
 - NGOs
 - private sector (tied aid contracts)
 - consultancy firms, ...
- Role of education and media
- But also an important role for Parliament
 - provided it is better informed than public opinion
 - provided it does not only listen to pressure groups

4. Donors in pursuit of too many goals

- Development
 - technocratic: economic growth, health, education,...
 - political: democracy
- Global public goods
 - climate change
 - distress migration
 - drug trafficking
 - contagious diseases
- Non-developmental selfish donor interests
 - commercial interests (aid tying)
 - geo-political interests
 - security interests

5. Samaritan's dilemma

- Buchanan (1975)
- Beggar (recipient) shirks from his responsibility as a consequence of the aid he receives
- The more the Samaritan (donor) is keen to help, the more the beggar can reduce his own effort
- Illustrations
 - villagers do not maintain water pumps installed by NGO
 - countries do not take tough IMF medicine
 - countries do not enact agricultural reform

Samaritan's dilemma

- Through a credible strategy of withdrawal a tough Samaritan can put pressure on the recipient (conditionality)
- Another effective strategy for the smart Samaritan may be to organize aid tournaments (selectivity)

6. Warm glow

- People feel good simply from the act of giving, irrespective of the results obtained
 - not to be confused with altruism
- Warm glow is a powerful incentive for international solidarity, but it can hamper collective action
 - donors prefer bilateral to multilateral aid
 - donors prefer tangible (photographs) and 'attributable' results (projects), even if this is ineffective aid
 - Northern citizens bypass intermediaries (NGOs) in order to increase the warm glow, even if this reduces effectiveness (transaction costs for delivery and supervision)

7. Illustration 1: Human Rights

- Using the treat to cut aid
 - may not be credible because Samaritan's dilemma
 - may not be credible because of donor interests
 - may not hurt the perpetrators
- We need carrots, not only sticks
 - Mo Ibrahim Foundation Prize
- We need smart non-aid sanctions
 - diplomatic sanctions
 - visa refusal, asset seizure
 - military interventions
 - bilateral: dangerous
 - UN 2005: Responsibility to Protect

7. Illustration 2: budget support

- The Paris Declaration principles favour budget support
- Yet donors do not live up to the expectations
 - around 20% of ODA in 2007
- This is in part because of donor collective action problems (see next slides)
- Note: this is also in part because of justified misgivings of donors relating to governance failures on the recipient side that go beyond the Samaritan's dilemma (not further discussed here)

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Budget support	<ul style="list-style-type: none"> • general productivity of the public sector

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		<ul style="list-style-type: none"> • transaction costs • weakening of public sector (donor-driven priority setting, poaching of recurrent resources and staff)
Budget support	<ul style="list-style-type: none"> • general productivity of the public sector 	<ul style="list-style-type: none"> • strengthening of the public sector (TA, policy dialogue, conditionalities)

Why do donors not like budget support better?

- Politicians and donor agency bosses may not take into account the indirect effects, which occur over the longer run and are difficult to attribute to any one donor
- The direct effects of budget support have to be shared among all the donors
 - disincentive to small and medium-sized donors
- Budget support is more risky to donors
 - fiduciary risk
 - developmental risk
 - reputational risk

8. Conclusion

- High hopes of the aid approach that is advocated in the 2005 Paris Declaration are not being fulfilled
 - good principles
 - but also naïve about incentives facing donors
- But there is no brilliant new aid paradigm looming over the horizon
 - this is still the best game in town



Thank you

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