



Aid effectiveness in the post-Busan era

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Intro

- This seminar is
 - not about grand aid strategies, geographical or sectoral priorities, or global targeting (MDGs)
 - but more humbly about managing aid: choice of modalities, division of labour, outsourcing, delegation, and the like
- Aid effectiveness debate has lost momentum
 - Busan doesn't seem to have that same 'karma' that Paris had
- Uncertainty where to go and what to do

The original aid effectiveness diagnostic

- In aid-dependent countries several dozens of foreign agencies work alongside each other
- Using their own diagnostics, priorities, procedures, budget time frames, reporting formats, and upward accountability systems
- This imposes a huge burden on recipients: unnecessary transaction costs, poaching of staff, burdening of budgets, and undermining policy coherence
- This undermines effectiveness of interventions
- Yet in these countries governments typically lack capacity and/or willingness to impose coordination
- The solution must come from donors changing their management practices

How we will proceed

1. Revisit the 'big moments' that have shaped donor thinking and acting on the topic
2. Get rid of the clutter and focus on the essential stuff
3. Look at the evidence and draw lessons
4. Single out those elements that remain worth striving for in a fast changing world

1. Revisiting the 'big moments'

- Assessing aid (World Bank 1998)
 - Projects don't work (see slide 6)
 - Good policies matter but pushing policies doesn't work (see slide 7)
 - So direct aid to countries that are well governed
 - Provide limited aid in other countries directed at immediate welfare improvements
- 1999 Launch of the PRSPs
 - Ownership – national strategy (priorities, policies)
 - Alignment and harmonization
 - Budget support

Why did donor-driven and managed projects not work ?

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)

Why did structural adjustment not work ?

Strengths

- Emphasis on sound macroeconomic management
- 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
- Disconnect with bilateral donors
- Conditionality design faults
- Reform overload
- Long-term view on development missing

- **2005 Paris Declaration (PD)**
 - Ownership – alignment – harmonization
 - Results orientedness – mutual accountability
- **2008 Accra**
 - PD aid delivery principles not just for LDCs or LICs but all recipient countries (MICs)
 - Division of Labour
 - Multi-stakeholder approach
 - Involve civil society in everything
- **2011 Busan**
 - More about getting the BRICs on board
 - Introducing Global Public Goods like climate
 - IATI – Aid transparency
 - New Deal for Fragile states
 - From aid effectiveness to development effectiveness

Changing world – changing game

- Economic success stories in developing world abound
 - >70% of absolute poor now live in MICs with good prospects
 - Many aid dependent LICs are doing well economically
 - War on extreme poverty may be won
 - ➔ National development dynamics beat aid any time
- A new multipolar world order has emerged
 - Old donors' insistence on democratic transition contested by emerging donors
 - Global public goods motivation gains strength over international solidarity
- Number of aid actors and instruments keeps expanding
 - Pleas for more reliance on markets (Barder 2009) and networks (Severino & Ray 2010)

2. Getting rid of the clutter

- The nature of the state and the quality of government matter greatly for development
 - The market and civil society also play a crucial role, but cannot compensate for government failure
 - Neither can foreign aid
- For these reasons, structural aid should
 - (minimum scenario): improve services to the poor whilst making sure macro and meso institutions are not harmed
 - (maximum scenario): contribute to institutional improvements at macro and meso level

This matters more in some countries

- The institutional problem is most acute in weakly functioning environments
 - Incapacity/unwillingness of the state to organise the collective services that enhance development
- In such countries aid can be very useful if it successfully focuses on institutional improvements, but can also do considerable harm if it doesn't
- The more a country is aid-dependent, the more the lack of collaboration among donors increases the probability of institutional damage

... than in others

- In countries that are not aid-dependent, PD strategy is less convincing
 - Effect of aid on institutions is marginal
 - Donor have very limited leverage
- All the more so if these countries also have more competent public sectors
 - Recipients better able to bear transaction costs of aid
 - Projects usefully address considerable bottlenecks situated at sub-sector level

3. Learning lessons (1)

- The PD criticism of traditional project practice was correct, but
 - Ignored that projects can be managed in accordance with PD principles (“new-style projects”)
 - Underestimated the disincentives for donors to engage in budget support
- The PD erroneously assumed that all budget support has a benign institutional effect
- It also did not foresee that budget support would be a prime target for sanctioning democratic failings

	Direct effects	Indirect effects
Donor managed project aid	<ul style="list-style-type: none"> • productivity of the project itself 	<ul style="list-style-type: none"> • know-how transfer • pilot function
		<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"> • productivity of the public sector 	<ul style="list-style-type: none"> • enhancing public sector productivity (in combination with technical assistance, policy dialogue, smart conditionalities)

3. Learning lessons (2)

- The empirical evidence of the PD was shaky
- Recent studies showing positive results of aid in general (irrespective of the modality) have become more convincing (Clemens et al. 2012)
- There is also evidence that budget support is achieving results (Dijkstra et al. 2012)
- There is strong theoretical backing for the importance of institutions, despite
 - Skepticism about donors “playing God”
 - “Randomistas” lamenting lack of rigorous testing

3. Learning lessons (3)

- The collective action envisaged by the PD ignored the importance of new players
- Busan tried to get emerging donors fully on board, but failed
- It still makes sense for the “old” donors to engage in harmonisation and alignment, but their reduced leverage should be counted in

4. Post-Busan aid effectiveness (1)

- Differentiate between poorly performing aid-dependent countries and the rest
 - The effect of aid on institution building should be a key concern in the former, but not in the latter
- In the former, it is not about budget support supplanting projects, but about a judicious combination of an array of aid modalities (portfolio approach)
 - GBS, SBS, basket funds, projects with different degrees of alignment, support of non-state actors, emergency aid,...
 - In line with programme-based approaches (SIDA 2008)

4. Post-Busan aid effectiveness (2)

- Inter-donor coordination remains important even if not all donors participate
 - Achieving alignment and harmonisation at EU level would have significant impact
 - Existing multi-donors initiatives offer other clusters of alignment and harmonisation
- Intra-donor coordination is equally important
 - Reduce the proliferation of budget lines, departments, agencies, actors (including non-governmental) that do not “speak to each other”

4. Post-Busan aid effectiveness (3)

- Confusion about promoting development versus democracy is a major source of ineffectiveness
 - Draw inspiration from Tinbergen's Law
- Aid Transparency remains an important issue
 - Communicate & learn

5. Conclusion

- The present disillusion is predictable but is unwarranted
 - Aid performance should not be judged by the unrealistic initial expectations of the PD
 - It will take a long time before results materialise, but there are sound arguments to pursue the course
- The strong PD attention to the effect of poorly coordinated aid on recipient institutions is warranted in many countries
- We do not need yet another new aid paradigm, and should instead improve and fine-tune the PD agenda, one small step at the time

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Thank you



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