Improving the Effectiveness of Aid

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LEVELS of aid have begun to recover and seem likely to continue to increase following a protracted decline in the 1990s. Yet both donors and recipient countries generally agree that aid is still underperforming in terms of development effectiveness. It has become clear that what matters in reaching development goals is not just the amount of aid but also the quality of that aid.

Decades of development assistance have shown, for instance, that if countries are to become less dependent on aid, they must be able to determine their own priorities and rely on their own systems to deliver that aid. Donor-driven aid does not lead to sustainable results. Moreover, asymmetries in the aid relationship, whereby donors respond to their own constituencies rather than to citizens' needs in developing countries, have distorted the accountability of domestic institutions in recipient countries.

Experience has also shown that if donors do not channel funds through recipient country institutions, these countries will not strengthen (or in some cases even develop) the governance structures and capacities to pull themselves out of poverty. In addition, disparate actors and interests have led to the uncoordinated delivery of aid—again putting severe strain on local government systems.

In the face of these hurdles, donors and partner countries have committed to transform the way aid is delivered. The goal is to improve the quality of aid and achieve greater development impact. Over one hundred donors (bilaterals and multilaterals) and developing countries endorsed the Paris Declaration on Aid Effectiveness at the High-Level Forum in Paris on March 2, 2005. In doing so, they agreed for the first time to measure their success, or failure, at making aid more effective through a set of 56 commitments. Following the endorsement of the Paris Declaration, the way in which aid is delivered was set to undergo wide-ranging reform. Expectations were high: aid would be better coordinated, increasingly aligned with country priorities, and delivered in a harmonized way; donors would commit to support national ownership; development results would be measured; and donors and countries would be mutually accountable.

Now, at the halfway point between the endorsement of the principles and commitments in the Paris Declaration and the date set for their implementation (2010), the question is, has aid effectiveness improved? Addressing continued inefficiencies in the governance systems at both the international and country levels has become a high priority, and a series of high-level meetings in 2008 make this year

A proliferation of donors and projects has made the governance of aid more problematic

Photo above: Distributing food aid in Niger. Relief aid is a small part of the complex aid world.

critical for evaluating such efforts and building consensus to move forward and strengthen aid effectiveness.

This year's meetings include the Accra High-Level Forum on Aid Effectiveness and the United Nations Summit on the Millennium Development Goals (MDGs) in New York in September, and the Financing for Development follow-up meeting in Doha in November. Commitments undertaken and promises made in previous forums (notably in Monterrey in 2002; and in Paris and in Gleneagles in 2005) will be reviewed and new impetus will be given to reforming the way aid is delivered.

This article highlights the challenges created by ineffective aid and how transforming governance mechanisms are a way to address these challenges. It outlines a set of recommendations to strengthen aid effectiveness while recognizing that there are no easy solutions or one-size-fits-all approaches and that national conditions vary in the delivery of aid. Improving the effectiveness of aid entails addressing complex policy challenges at both the international and country levels—not least because development cooperation is an inherently political process.

Assessing the problems

The institutional complexity of the global governance of aid presents real difficulties, given that more than 280 bilateral donor agencies, 242 multilateral programs, 24 development banks, and about 40 United Nations agencies are working in the development business. The increasing number of private foundations and the existence of so many nongovernmental organizations (NGOs) add to the complexity. The proliferation of donor activities—including an estimated 340,000 development projects around the world—leads us to question current ways of managing the aid business.

Indeed, a slew of factors combine to make aid effectiveness less than optimal. They include lack of aid predictability, issues of coordination among the large numbers of donors, and aid fragmentation—all of which have real implications at the country level.

Lack of predictability. According to preliminary data, a recent Survey on the Implementation of the Paris Declaration (OECD-DAC, 2008a) showed that in any average country only 45 percent of aid arrives on time, as scheduled by donors. This lack of predictability means that government authorities in developing countries will have difficulty planning or responding to citizens' needs if funding does not arrive when new hospitals and classrooms were promised (see "Managing Aid Surprises" on p. 34).

Lack of coordination. Uncoordinated aid also creates problems. In 2005, government authorities in Vietnam received 791 visits (missions) from donors—that is, more than two a day, including weekends and holidays (OECD-DAC, 2006). In Tanzania, for instance, health workers in some districts spent more than 20 days a quarter—almost 25 percent of their working days—writing reports for different donors. Given the lack of capacity at the country level and the precedence given to responding to donor demands, it is difficult to imagine how civil servants can focus on things that really matter.

Aid fragmentation. Fragmentation of aid at the country level is getting worse. Fragmentation occurs not only with the increase in the number of donors but also the proliferation of donor-funded activities. This all too often imposes a heavy burden on developing countries and capacities, and reduces the sustainability and value of the aid received (see map).

A survey by the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) on the scaling up of aid (OECD-DAC, 2008b) shows, for example, that in 2005–06, 38 developing countries received official development assistance (ODA) from 25 or more DAC and multilateral donors. In 24 of these countries, 15 or more donors collectively provided less than 10 percent of that country's total aid but typically each required the developing country to apply their respective and differing procedures and standards.

At the same time, some states suffer from a lack of attention by the donor community with only 10 donors in total. It is time to look critically at the fragmentation of aid and to foster the capacity of governance systems and mechanisms to adjust where donor presence is clearly suboptimal.

The commitment gap

In 2005, members of the Development Assistance Committee (DAC) announced commitments to increase net official development assistance (ODA) to coincide with the Millennium+5 Summit in New York. If delivered, these commitments would entail an additional $50 billion net ODA a year to be provided by 2010 (in 2004 dollars). Net ODA increased from $69 billion in 2001 to $107 billion in 2005, boosted by major debt write-offs qualifying as ODA. In 2006, there was a slight decline in ODA, and 2007 figures saw a further decline following the end of the exceptional debt relief to Iraq and Nigeria in 2005 and 2006. Nigeria accounted for almost a quarter of total net ODA to Africa in 2006.

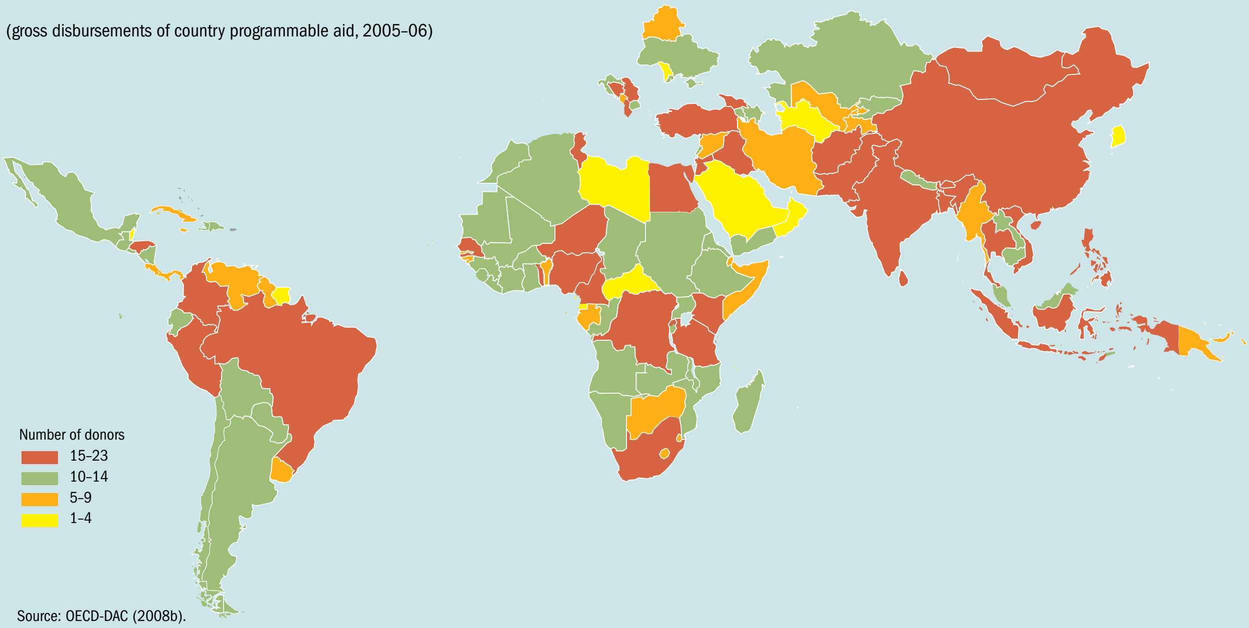
Because debt relief is expected to decline over the coming years, the annual increase in other forms of aid will have to be substantial if the donors' commitments are to be met. Forward spending plans for gross country programmable aid (CPA) were published by the DAC for the first time in May 2008. The DAC defines CPA as the total resources that are available to developing countries. It is calculated as the total gross ODA minus humanitarian aid, debt relief, administrative costs of donors, imputed student costs, promotion of development awareness, research, costs of refugees in donor countries, food aid, aid from local governments in donor countries, and core grants to NGOs in donor countries and to international NGOs.

The spending plans show that the 23 members of the DAC; the World Bank; African, Asian, and Inter-American Development Banks; the main UN organizations; and the health and environmental global funds together will increase their CPA by some $20 billion during 2004–10 (including the higher replenishments of the soft loan facilities of the World Bank, the African Development Bank, and the Asian Development Bank). Despite this, the DAC estimates that nearly $30 billion remains to be earmarked to reach the overall aid levels implied by the targets set by DAC members individually for 2010 (OECD-DAC, 2008b).

Aid fragmentation: Too many donors contributing too little?

The map shows the number of donors together providing just one-tenth of a country's aid.

(gross disbursements of country programmable aid, 2005–06)



Source: OECD-DAC (2008b).

An expanding donor base

New emerging trends in the aid business—particularly the involvement of new big donors—together with promises to scale up aid make discussions and consensus at the international level on transforming the governance of aid count more than ever.

Even if promises relating to scaling up may not be met (see box), it is likely that aid levels will continue to rise. This is for a number of reasons.

Many more sources of funding have emerged and are likely to both provide opportunities and amplify some of the problems relating to the effectiveness of aid. A broad range of emerging and transitional economies are expected to increase the proportion of aid, including recent members of the European Union; Middle Eastern funds; China and India; and others such as Thailand, Malaysia, and Singapore.

Private sources of development finance are also becoming increasingly important and include private foundations, NGOs, and the private sector (through new initiatives such as Project Red, alongside more traditional corporate social responsibility roles). Moreover, new global initiatives (such as the Global Alliance for Vaccines and Immunizations [GAVI] and the Fast Track for Education) will all increase resources available for development.

Although information on ODA provided by states that are not part of the DAC is insufficient to assess aid volumes, their share of aid globally is likely to increase (Manning, 2006). A study in 2005 estimated that non-DAC donors represented some 12 percent of global aid in 1999–2004, although this differs at the country level—in some countries, non-DAC donors represented more than 33 percent of their aid (Harmer and Cotterrell, 2005). Moreover, private capital flows have increased. According to *Global Development Finance 2008* (World Bank, 2008), emerging economies attracted a record $1 trillion in net private capital flows.

Tackling the difficulties

Because aid delivery involves multiple stakeholders and is not subject to a single political authority, transforming the governance of aid at multiple levels is an attempt to address these very real and significant obstacles.

Moreover, governance mechanisms are beginning to appear at the international and the national level, which can facilitate progress in a number of areas.

International partnerships have emerged in the wake of calls for action to change the way aid is delivered, and not just how much aid is delivered. The DAC-hosted Working Party on Aid Effectiveness, for instance, was set up in the context of the international consensus reached at Monterrey on actions needed to promote the global partnership for development and accelerate progress toward the MDGs. The working party includes all 22 DAC donors and the European Commission, 11 multilateral agencies, and 23 developing countries. The partnership has contributed to building consensus between donors and partners on key areas relating to aid effectiveness, in particular, the Paris Declaration. It has also created an authoritative set of aims and standards through a survey instrument that is being applied in 54 countries, against which the practices of all donors and recipient countries are being assessed.

Building donor-recipient coordination. One of the most promising aspects of improved interaction at the country level is the creation of governance mechanisms that result in greater dialogue and coordination between donors and recipients. Joint assistance strategies, for example, identify donors' comparative advantages and provide an independent review of progress in delivering on both donor and recipient commitments. Often, these strategies include channeling a higher proportion of aid through a country's own budget systems, which enhances country ownership over those funds. This type of governance mechanism also fosters increased accountability between partners.

For example, Tanzania has a well-developed framework for mutual accountability, which relies on the work of an independent monitoring group that conducts biennial reviews of both donor and government progress against their various commitments—making both donors and recipients answerable for their promises.

Issue-specific governance networks have also started to respond to the need for greater focus on the country level. New funds and foundations provide substantial new resources to the chosen area of intervention (malaria, AIDS, primary education, and so on). At times they contribute to "upstream harmonization," through initiatives such as the Fast Track Initiative for Education, and they are also aiming to improve the coordination of agencies (or—as it is commonly called—improve the division of labor between donors) in the health sector. In July 2007, an informal grouping was created, bringing together eight health-related organizations, with the aim of fostering coordination across agencies at both the global and the country level as well as encouraging better working practices, particularly within institutions, to achieve quicker results in line with the health MDGs. The Health-8 comprises the World Health Organization; UNICEF; the United Nations Population Fund; UNAIDS; the Global Fund to Fight AIDS, Tuberculosis, and Malaria; GAVI; the Bill & Melinda Gates Foundation; and the World Bank.

Partnerships have also emerged between donors, recipient countries, and ***nongovernmental stakeholders.*** For example, in January 2007, the Advisory Group on Civil Society and Aid Effectiveness was created to bring civil society into the international aid effectiveness agenda, both as advocates of good practice and in their capacity as implementers and sources of aid.

Not yet out of the woods

Although progress has been made in strengthening governance mechanisms at several levels, clearly much remains to be done if the commitments drawn up in 2005 are to be met. The following three challenges are representative.

• **Moving the ownership agenda forward.** Although donors encourage developing countries to set their own strategies for poverty reduction, and the quality of national development strategies has improved, significant weaknesses remain in making national strategies operational. The Evaluation of the Paris Declaration and the Surveys on Monitoring the Paris Declaration note that a country's strategic vision is often not linked to a fiscal policy or budget process. As a result, strategies have few operational implications because resources are not reallocated toward priorities defined in the strategy. Moreover, as argued in the Evaluation of the Paris Declaration (2008c) and the Surveys on Monitoring the Paris Declaration (2006 and 2008a), ownership is narrowly defined with an exclusive focus on the executive authority. Less attention is paid to how the legislature can better shape and own the development agenda. It is also often restricted to the highly technical sectors that are largely shaped and governed by the executive.

When it comes to using a country's own systems (rather than relying on donors' procedures and processes), the lack of progress is particularly stark. Despite advances in the quality of a country's public financial management system, for example, donors have not increased their use of those systems sufficiently (see Chart 1). The use of country systems is also often limited to a specific way of delivering aid. In Rwanda, for instance, the use of country systems is limited to the donors delivering assistance as general and sector budget support, when the aid is provided directly through a government's budget. Donors providing aid in the form of projects do not use country systems as often (2008d).

• **Accountability is still perceived as the weakest link.** Accountability lies at the crux of the good governance of aid. Domestic accountability of recipient countries to their own constituencies depends crucially on aid passing through country systems (for instance, budget execution mechanisms and parliamentary review processes). Mutual accountability between donors and recipients implies that development goals be shared, answerability mechanisms created, and sanctions (soft or hard) put in place should parties fail to deliver.

However, even when mutual accountability frameworks do exist, they are often not implemented. For instance, despite efforts by donors to improve the predictability of aid, little progress was made between 2005 and 2007, making it hard for recipients to plan (see Chart 2).

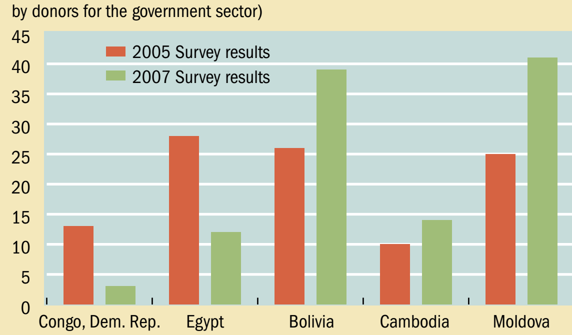
• Finally, despite the creation of a number of governance mechanisms at the international and national levels, **a significant transparency gap still exists** between public pronouncements and how decisions are made about the delivery of aid. At the country level, transparency is often

Chart 1

Limited progress

Public financial management (PFM) systems remain underutilized in many countries surveyed.

(use of country PFM systems as percentage of total aid disbursed by donors for the government sector)



Source: OECD-DAC (2008a).

lacking about how public finances are spent, how contracts are procured, and how results are monitored. On the donor side, communication around the definition of conditionality and decisions regarding the use of country systems are still weak.

Translating commitments into effective aid

The findings in the Surveys on Monitoring the Paris Declaration and the Evaluation of the Paris Declaration point to a number of areas in which real progress must be made to strengthen the effectiveness of aid. The Paris Declaration is a political agenda for action rather than a mere technical agreement. As noted in the 2008 Evaluation of the Paris Declaration: "Real issues of power and political economy come into play, in many cases requiring political solutions." It is hardly surprising, therefore, that changing the governance of aid through purely technical solutions may fall at the first hurdle. With this in mind, there are a number of key lessons as we move forward to the Accra High-Level Forum on Aid Effectiveness and beyond.

Focus on results, not on attribution. More focus needs to be placed by donors on achieving results rather than on being seen to give aid. Many donor agencies require attribution and visibility for the efforts undertaken to assist countries as part of their own accountability requirements at home (and in particular to their taxpayers). But this should not get in the way of making aid more effective.

Enhanced political leadership and demand for aid effectiveness at country level. Developing countries should be engaged politically in the aid effectiveness agenda: they should clearly state their demands for increased alignment, harmonization, and accountability within a robust framework. The division of labor among donors and reducing fragmentation of aid will also require strong local ownership of the development agenda at the country level. Saying "no" to aid that fails to align with country systems may be a first step. To reduce fragmentation of aid, developing countries need to be empowered to better manage donor requests so that they can more easily reject what they do not want.

Two-way accountability. Partner countries should commit to strengthening their country systems as well as building capacity for domestic accountability institutions, such as the legislature and supreme audit institutions. Donors, in turn, must communicate more clearly when aid will be delivered and how, and focus on the more transparent development of policy conditionality. It requires very little political risk to ensure aid is on the budget plan, for example, and yet donors often do not work with country authorities to ensure this basic requirement for the good governance of aid.

Stemming the proliferation of aid agencies. Donors must strive to reduce the number of agencies and their activities in different sectors at the country level. Aid effectiveness is compromised by too many donors with different systems and policies. Clear criteria for new foundations and funds should be developed to ensure their value added.

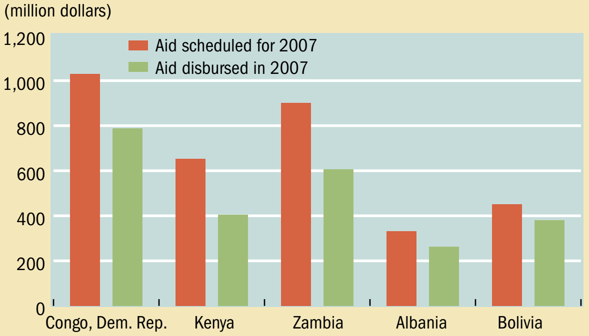
Communication, communication, communication. Donor self-assessments on the implementation of the Paris Declaration show that DAC members are aware of the need to better communicate both with partner countries and with their own publics on the importance of the aid effectiveness agenda. As one donor noted: "We face a real challenge in explaining to people on the street what these initiatives mean and why they are important." Strong communication on aid effectiveness is key, therefore, to ensuring that political commitments (on both sides) are sustained, in particular as difficult choices lie ahead on managing risks in the use of country systems, untying aid, and attracting new development partners to the table. ■

Chart 2

Off target

Wide gaps exist between the levels of aid scheduled by donors for disbursement and actual amounts received.

(million dollars)



Source: OECD-DAC (2008a).

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