



Improving Aid Effectiveness: Issues, Evidence and Challenges

*Presentation by Guido Ashoff
German Development Institute, Bonn*

at the Conference „Aid Effectiveness. The Paris
Declaration and its Implementation“

organized by ÖFSE, Vienna, 30 May 2007



„In many aid-giving countries there is a persistent suspicion that aid is often wasted and makes little impact on economic and social conditions.“

(Pearson Report 1969, p. 168)

"We, Ministers of developed and developing countries responsible for promoting development and Heads of multilateral and bilateral development institutions, (...) resolve to take far-reaching and monitorable actions to reform the ways we deliver and manage aid (...). We recognise that (...) aid effectiveness must increase significantly (...).“

(Paris Declaration on Aid Effectiveness 2005)



1. Aid effectiveness: a core issue of the legitimacy of aid
2. Doubts about the effectiveness of aid: the range of criticism
3. Possible reasons for insufficient aid effectiveness (overview)
4. What do we mean by „aid effectiveness“?
5. What do we know about the effectiveness of aid?
6. The international aid effectiveness agenda: overview
7. The goal dimension of the aid effectiveness agenda
8. The financing dimension of the aid effectiveness agenda
9. Procedures: the Paris Declaration of Aid Effectiveness
10. Policy dimension: policy coherence for development



1. Aid effectiveness: a core issue of the legitimacy of aid

The „aid industry“ is facing a crisis of legitimacy. Reasons:

- Unsatisfactory development progress in numerous partner countries (particularly in failing or failed states) many of which have received large amounts of aid)
- Insufficient efforts of development cooperation to clearly demonstrate its effectiveness
- Methodological problems in proving the effectiveness of aid (often resulting in contradictory findings)
- Broad range of criticism of the effectiveness of aid
- The enormous pressure to succeed the international aid system has put on itself by setting the aid effectiveness agenda



2. Doubts about the effectiveness of aid: the range of criticism

The criticism that aid is not effective is as old as aid. There has been a broad range of types of criticism:

- Criticism from within the aid system („technocratic criticism“) versus fundamental criticism (e.g. Myrdal; Bauer)
- Thoroughly founded versus superficial/catchy criticism („golden beds“)
- Case study evidence versus questionable generalizations
- Micro-analyses (project evaluations) versus analyses of the aid system (Pearson Report; Brandt Report; Cassen et al.: „Does Aid Work?“)
- Constructive versus polemical criticism („Tötliche Hilfe“)



3. Possible reasons for insufficient aid effectiveness: an overview

Aid can be ineffective for many reasons responsibility for which lies with the following actors (see also the handout)

- Development cooperation (the aid system)
- Other donor policies (lack of policy coherence for development)
- Development research (including research on evaluation)
- Partner countries
- External and internal framework conditions

The Paris Declaration on Aid Effectiveness addresses (and can address) only part of these reasons.



4. What do we mean by „aid effectiveness“? (DAC definitions) (1)

- **Effectiveness:** The extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance
- **Relevance:** The extent to which the objectives of a development intervention are consistent with beneficiaries' requirements, country needs, global priorities and partners' and donors' policies



4. What do we mean by „aid effectiveness“? (DAC definitions) (2)

- **Inputs:** The financial, human, material resources used for the development intervention
- **Outputs:** The products, capital goods and services which result from a development intervention
- **Outcome:** The likely or achieved short-term and medium-term effects of an intervention's outputs
- **Impacts:** Positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended

5. What do we know about the effectiveness of aid? (1)



Our knowledge about the effectiveness of aid, while improving, is still rather incomplete and sketchy for several reasons:

- The „aid industry“ has long focused primarily on inputs and outputs rather than on outcomes and impacts.
- Evaluation often failed to distinguish clearly between inputs, outputs, outcomes, impacts, effectiveness, relevance, significance.
- Analysing outcomes/impacts is complicated by the attribution gap.
- The evaluation coverage of aid projects/programmes, while increasing, is far from being complete.
- Analysing the effectiveness of aid is the more complicated the higher the level of aggregation is (we know much more about aid effectiveness of projects than of country programmes or of aid as a whole).

5. What do we know about the effectiveness of aid? (2)



For the sake of simplicity, three levels of analysis are distinguished:

- **Project level:** The evidence provided by evaluations is mixed. Many projects have indeed contributed to improving the living conditions of the target groups whereas others have had little or even negative impacts. Some aid institutions publish percentages of successful projects (e.g. 74 % in the case of the German KfW in 2004).
- **Country programmes:** Few donors have undertaken systematic evaluations at this level, the World Bank being a noteworthy exception. 32 out of 55 World Bank country programmes evaluated by the Independent Evaluation Group were found to be effective.
- **Cross-country regressions:** Despite a huge number of analyses, there are very few robust results („stylized facts“): (i) decreasing returns of aid; (ii) the quality of institutions (*not* of policies) appears to matter; (iii) aid effectiveness varies according to the type of aid.

5. What do we know about the effectiveness of aid? (3)



When analysing the effectiveness of aid one has to consider two additional aspects:

- **Fungibility of aid:** Aid finances projects and programmes which in the absence of aid might have been financed by the partners themselves, thus freeing resources for other (perhaps less beneficial) purposes.
- **Micro-macro paradox:** The puzzling finding (frequently used to question the legitimacy of aid as a whole) that despite effective aid projects the development record of partner countries remains unsatisfactory or even worsens. Possible reasons: (i) The weight of aid may be too limited to have a positive impact at sectoral and macro levels. (ii) All the reasons indicated in the handout.



6. The international aid effectiveness agenda: Overview (1)

The effectiveness of a policy depends at least on four conditions:

- Goals as the substantive yardstick (effectiveness is no end in itself),
- Resources to achieve the goals,
- Principles and procedures conducive to goal achievement,
- Support, or at least no impairment, by other policies

The international community has translated these four conditions into commitments which, taken together, can be called the international aid effectiveness agenda.

6. The international aid effectiveness agenda: Overview (2)



- **Goal dimension:** Millennium Declaration (2000); Millennium Development Goals/MDGs (2001)
- **Resource dimension:** Commitments made at the UN Conference on Financing for Development (2002); commitments by the EU member states (2002 and 2005)
- **Principles and procedures:** Paris Declaration on Aid Effectiveness (2005); Marrakech Round Table on Managing for Development Results (2004)
- **Policy dimension:** The need for enhanced policy coherence for development explicitly endorsed by the donors at UN, OECD, EU and national levels.

This agenda provides both a potentially powerful and highly ambitious framework for improving aid effectiveness. Yet it involves many issues that require clarification.



7. The goal dimension the international aid effectiveness agenda: some issues

Millennium Declaration (MD)

- Relationship between the four key objectives of the MD (i) peace, security, disarmament, (ii) poverty eradication, (iii) protecting the environment, (iv) human rights, democracy, good governance?
- How to deal with conflicting interests and trade-offs?

MDGs

- The MDGs are less comprehensive than the MD.
- Some MDGs tend to focus on quantity rather than on quality (e.g. education).
- Some MDGs indicate outputs or inputs rather than outcomes (e.g. school enrollment or some environmental indicators).



8. The resource dimension of the aid effectiveness agenda (some issues)

How to mobilize the resources needed to achieve the agreed ODA targets?

- How to convince parliaments and ministers of finance?
- Potential of innovative sources of finance?

How to use the additional ODA resources?

- What about the absorptive capacity of partner countries? Do we need a big push?
- Allocation to which countries? (to the good performers in order to ensure effectiveness?)
- Allocation to which sectors or needs?
- Modes of delivery? (e.g. budget aid?; under which conditions?)



9. Principles and procedures: the Paris Declaration on Aid Effectiveness (1)

Ownership:

- By whom (governments, parliaments, civil society, target groups)?
- How is it generated within the partner countries?
- How can donors promote ownership?
- What to do in the absence of (sufficient) ownership?

Alignment:

- How to align in the absence of sound country systems (strategies, institutions, procedures)?
- How can donors strengthen country systems without impairing ownership?



9. Principles and procedures: the Paris Declaration on Aid Effectiveness (2)

Harmonisation:

- Possibly very cumbersome and involving high transaction costs. Could a clear division of labour between donors be more efficient?
- How to assess donors' comparative advantage?
- How can the partner countries' capacity for harmonising donors' contributions be strengthened?

Managing for development results (MDR)

- *Partners:* How to improve the linkages between national development strategies and the budget process and how to establish results-oriented reporting and assessment frameworks?
- *Donors:* What does MDR mean for donors' institutions and procedures?



10. Policy coherence for development: Requirements for enhancing coherence

- Political leadership of the minister responsible for aid
- Strategic policy framework
- Analytical capacity for monitoring and assessing the impact of other policies
- Proactive coherence work of the aid administration
- Policy coordination structures and processes conducive to enhance coherence
- Involvement of parliament in the discussion of coherence issues
- Cooperation with with NGOs and the media to stimulate public debate on policy incoherence

d·i·e

German Development
Institute



Thank you very much for your attention.