WOLFENSOHN CENTER FOR DEVELOPMENT at BROOKINGS

# Action on Aid: Steps Toward Making Aid More Effective

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**April 2009**

UN Secretary General Ban Ki-Moon terms 2009 as a year of a "development emergency." The World Bank's *Global Monitoring Report 2009* shows that most countries are off-track in meeting most of the MDGs—the most serious gaps appear in sanitation, child and maternal mortality, education, and hunger. The difference between the rate of progress needed to achieve the MDGs and the current reality is most significant in low income countries and in fragile states. It is in these countries that aid is also most important. Can the donor community do more for development effectiveness by improving aid effectiveness?

New data on aid for 2008 shows an increase to almost $120 billion, excellent news considering the budgetary pressures faced by many donor countries, and doubly good news for the majority of poor people as allocations for Iraq and Afghanistan have declined. This puts the aggregate Gleneagles commitment within reach (10% real increases per year through 2010), although current commitments suggest a shortfall of about $9 to 10 billion.

The Gleneagles commitment for Africa is less easy to meet—the current projected shortfall to Africa is about $25 billion. It would take a 25% real increase in 2009 and 2010 to meet the commitments. Even this headline figure would fall short of the $50 billion incremental need estimated by the African Development Bank; neither number reflects the fact that less than 40% of the assistance to Africa is available for development projects and programs.

* The author thanks Joshua Hermias for excellent research assistance.

*The actions proposed in the G-20 communiqué, providing $10 billion to LICs from IMF gold sales and enhanced access, and $18 billion to LICs from access to trade and private sector financing facilities, will go a long way to meet the Gleneagles targets.*

*The key remaining action is to reorient aid towards Africa.*

**Aid Quality**

Beyond aid volumes, the value of aid lies in its effectiveness vis-à-vis economic, social and policy outcomes. Unfortunately, less progress has been made on indicators of aid quality monitored through the Paris Declaration and other indicators (see Annex 1). The OECD report is clear: "progress is being made but not fast enough. Unless they gear up their efforts, developing countries and their external partners will not meet their international commitments and targets for effective aid by 2010." While fully supporting the Paris-Accra process, this note points to priorities within that process, and some additional issues, that merit immediate attention.

Specifically, actions to reduce waste and overlap in the aid system must address:

- the need to focus on increasing the amount of resources going towards development projects and programs;
- the need to improve the effectiveness of these resources by reducing administrative burdens, avoiding corruption, and promoting the continuity of engagement to reach scale.

While these are pressing issues for official aid agencies, they are equally significant for the large and growing non-official aid sector.

<u>Country Programmable Aid (CPA)</u>

Considerable amounts of aid are not available for development projects and programs. In some instances, aid goes directly to administrative costs of donors, to student scholarships in donor countries, or to debt relief which may not involve cross-border flows.

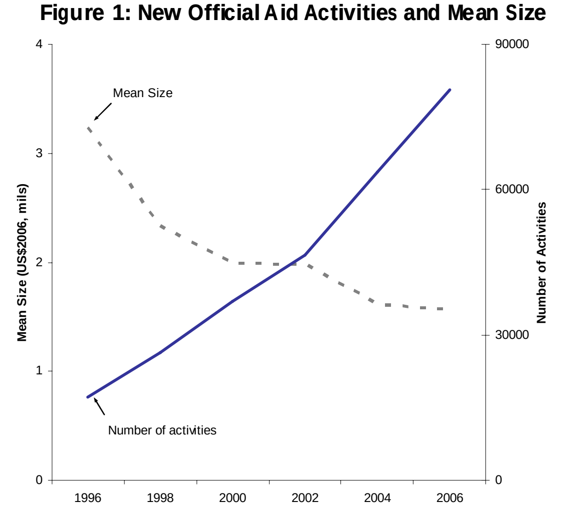
In 2007, CPA (as defined by the DAC) returned to historical levels of around 57% of total ODA, following the completion of debt forgiveness to Iraq and Nigeria. If technical cooperation is also excluded, on the grounds that its large component of donor country consultants (over 90%) may inflate its value, the share of money available for real development projects and programs falls even further—perhaps only 38% of total ODA is programmable when TC is excluded.

*In the current environment where budgets of many LICs are under extreme pressure, it may be more effective if the composition of ODA were shifted towards CPA. Donors may want to adopt an explicit target for CPA (defined as excluding TC) and return to the 1975 level of about 60 percent within five years.*

Fragmentation

With an ever greater number of donors and donor agencies, aid budgets are being fragmented. In 2006, there were 81,000 new aid activity commitments registered with the DAC, up from 17,000 in 1996. At the same time, the mean size of each activity steadily fell, to a level of $1.6 million in 2006 from $3.2 million in 1996. These figures do not tell the whole story of fragmentation as the mean is overstated because of a growing trend towards large budget support operations. The median size of a new activity is now only $67,000. (These numbers stay roughly unchanged even when technical cooperation, debt relief and budget support are excluded.) It appears that the increase in total ODA has come about by adding many small new projects rather than by scaling up what works. This problem appears to be similar in the private aid sector, too. In the case of the Aceh reconstruction effort (one example where data on NGO aid is robust), 1,643 NGO projects allocated $1.9 billion for a mean size of $1.2 million.

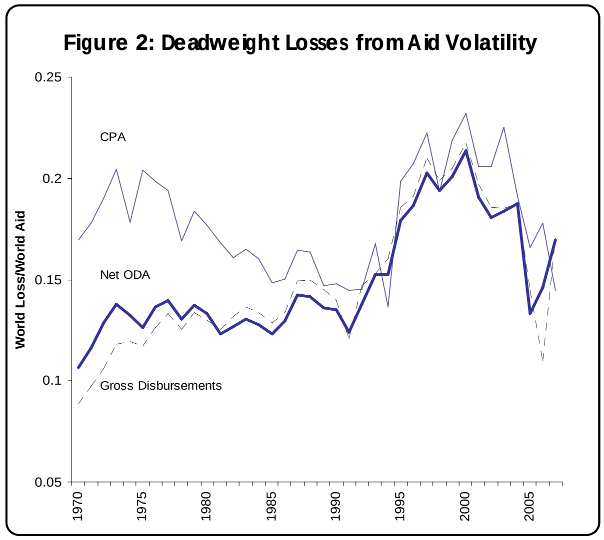
**Figure 1: New Official Aid Activities and Mean Size**




An aid "industry" has been built around mechanisms to deliver aid projects rather than to deliver development results.

*Donors should exit from small-scale activities by pooling resources. They should also aggressively pursue a division of labor with others and focus on scaling up through use of budget support and SWAP instruments. A review of incentives to scale up and including the concept of scaling up in evaluation could be a first steps.*

Volatility




Net ODA disbursements, as seen from the perspective of a recipient country, are highly volatile. Our research suggests that aid shocks faced by LICs are comparable in size and frequency to major global economic shocks faced by developed countries, such as the Great Depression, the two World Wars, and the Spanish Civil War (and perhaps the current global recession). The deadweight loss of such high volatility may be in the order of 15 to 20 percent of net ODA or about $18 billion in today's prices. There is considerable variance between donors, with some managing to maintain steady, predictable aid flows, while others are much more volatile.

All forms of aid are volatile from the recipient's point of view: total ODA, humanitarian aid, and CPA. The fact that volatility of CPA is as large as volatility of humanitarian aid is a surprise but appears to be due to the fact that there is one pot of money in each donor for aid. A humanitarian response often comes from reprioritizing funds away from development projects for the same country. Thus, humanitarian aid has tended to create volatility in development aid allocations.

A major problem with aid is that aid disbursements have tended to be procyclical with regard to recipient country budget revenues. For example, despite major efforts, IDA has not been able to disburse additional funds to LICs in FY09 to respond to the brewing crisis. Many bilaterals are even worse.

*When aid disbursements are procyclical, expanding when recipient country fiscal revenues and spending expand and contracting when these contract, they are highly disruptive of long-term development programs. Efforts such as multi-year commitments are useful in addressing this issue, but are still small compared to overall aid volumes. Other instruments, like credits with contingent repayment terms, or countercyclical budget support for countries with good track records, have not been piloted.*

*Donors may want to pay special attention to aid modalities and behaviors that reduce volatility and provide budget insurance where appropriate.*

Administrative Burden

There is considerable administrative burden placed on recipient countries, with overlap and waste appearing as recurring themes in aid effectiveness. The Paris Declaration sought to reduce this by focusing on joint donor missions, the reduction of parallel PIUs, use of country systems, harmonization among donors in requirements, et cetera. Some progress has been reported especially in coordinating technical cooperation with country programs. The total number of donor missions in a sample of 33 countries that reported in both 2005 and 2007 showed a decline from 10,284 to 9,196—still around one mission per country per day. The sample countries account for slightly less than one-third of total ODA; a rough estimate of the total number of donor missions may approach 30,000 per year. A significant amount of money may also be lost to corruption. Although this is hard to estimate in quantitative terms, ample anecdotal evidence suggests the amount is large. Surveys indicate that only half of project funds allocated by central governments actually reach intended beneficiaries.

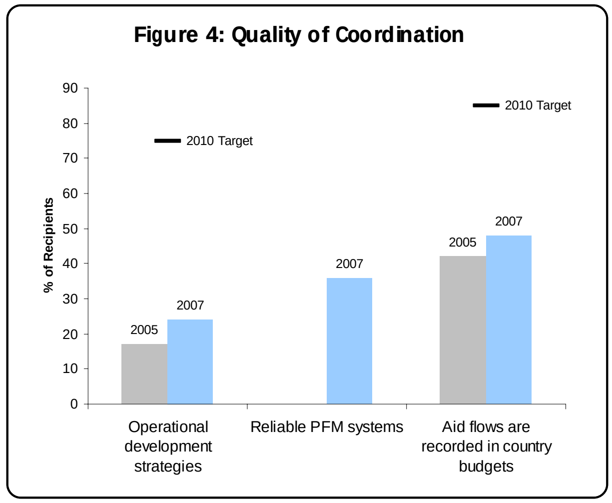
**Figure 3: Administrative Burdens of Aid**

| Indicator | 2005 | 2007 / Distance to Goal | 2010 Target |
|---|---|---|---|
| Donors coordinate their missions | 18% | 21% | 40% |
| T.A. is aligned and coordinated | 48% | 60% | 50% |
| Donors avoid parallel PIUs | 1,817 | 1,601 | 611 |

*Progress with coordinated missions and use of PIUs is still too slow and 2010 targets seem far away. Stronger effort to reduce the administrative burden on recipient countries is needed.*

## Coordination

Despite rhetoric towards aid coordination, progress towards these goals is modest. Less than half of all aid is even recorded in recipient country budgets. Fewer than 20 percent of countries have adequate-quality national development strategies around which donors could potentially coordinate; fewer than one quarter of countries have operational development strategies of any kind. Public financial management systems and procurement systems are improving, but still weak when looked at in aggregate.




*A far more intensive effort is required to bring country systems up to adequate levels. Donors could also selectively take more risks in using country systems even when they do not meet the highest standards, as long as they are improving. Some evaluations of projects done speedily in post-conflict environments like Bosnia and Aceh suggest that the suspension of tight financial management and procurement rules does not result in any decrease in the likelihood of success in development outcomes. Such findings suggest that donors could take more risk with fiduciary safeguards and reduce administrative cost without loss of development effectiveness.*

## New Players and Private Giving

New research has identified at least $49.1 billion in private philanthropy from developed to developing countries in 2007. In addition to reporting from the DAC, private philanthropy in 11 OECD countries was reviewed in arriving at this figure (if detailed reviews were carried out in all countries, private giving may top $60 billion). Private aid continues to grow, despite the economic downturn. Many foundations are increasing the share of assets disbursed to compensate for the reduction in endowment size. And evidence through March 2009 shows that internet-based giving appears to have continued growth.

The numbers show that private giving is similar in magnitude to net ODA, especially when debt relief is excluded. Much private aid goes to humanitarian relief, and indeed, in the first 48 hours, private giving may account for 60 percent of such relief. But an increasingly significant amount goes to development projects and programs, largely in social sectors. Private aid is slightly more likely to be oriented towards Africa (40 percent) than official aid.

Private aid may be reaching a scale where coordination with official donors is required for effectiveness. Some private givers have a scale or a depth of experience that suggests they can be serious partners in the overall aid effectiveness discussions. And private aid's diversity, with many different, competing business models, merits formal evaluation.

Along with many new private players, there has been a proliferation of multilateral/ODA-receiving aid agencies. DAC now reports 263 such agencies, compared with 230 reported in 2007.

*Outside of the humanitarian world, few formal coordination mechanisms exist to coordinate private agencies with official donors. Mechanisms like including private donors in the DAC peer review process and in Working Groups are easy to implement if there is the will to move forward. A more comprehensive database of public and private aid would seem to be a small, but potentially significant, first step towards such interfacing.*

*Despite examples of successful multi-stakeholder partnerships in the past (including CGIAR, GAVI, GFATM) such arrangements are still the exception rather than the rule. The scope for expanding these in focused areas may be enormous, especially where private givers play a role in building local civil society capabilities. Nevertheless, little attention is given to understanding exactly how to make such partnerships work in practice.*

*On their side, private givers can learn from the experiences of decades of official aid. More serious evaluation of private giving models, and use of official aid to scale up private giving successes (overcoming the "not invented here" syndrome) could radically alter the contours of the aid landscape.*

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## Annex

Progress towards the Paris Declaration on Aid Effectiveness, from 33 countries as reported in the *2008 Paris Monitoring Survey*.

| | Indicator | 2005 baseline | Distance to target (in 2007) | 2010 targets |
|---|---|---|---|---|
| 1 | Operational development strategies | 17% | 24% | 75% |
| 2 | Reliable public financial management (PFM) systems | — | 36% | 50% of countries improve score |
| 3 | Aid flows are recorded in country 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 | 1 817 | 1 601 | 611 |
| 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% |
| 11 | Sound frameworks to monitor results | 7% | 9% | 35% |
| 12 | Mechanisms for mutual accountability | 22% | 26% | 100% |

Key messages: Reasonable progress has been made on coordinating technical assistance (item 4), improving reliable public financial management systems (item 2), and untying aid (item 8). In other areas, progress is slow. The net impact of improved aid effectiveness on better development effectiveness has therefore proven to be small up to this point.