Committing to Effective Aid

Why can't donors walk their talk?

BY ECKHARD DEUTSCHER
AND SARA FYSON

THE CRISIS WHICH HAS RECENTLY GRIPPED the global financial system is in danger of compromising the commitments made by donors to scale up aid. With an increasing number of aid budgets coming under pressure, arguments for increasing net official development assistance (ODA) will more likely be heeded if backed by evidence that aid is effective. Improving the value-added of aid and showing that aid leads to tangible results at the country level will convince sceptics of the need to increase resources available in the future.

And yet, current evidence shows that more needs to be done to

achieve effective aid. In particular, costs of providing and receiving aid remain high. In 2007, for example, donors made more than 15,000 visits to 55 partner countries.¹ Vietnam alone received 782 missions in 2007; more than two per working day. In the 1990s, Tanzania was grappling with over 1,500 projects in the health sector—each with its own reporting and oversight mechanisms.² For under-resourced ministries in developing countries, these transaction costs can be unbearably high and reduce the value of the aid they receive. The sheer number of activities creates the need for greater harmonization between donors and alignment with partner country priorities. The current global context only reinforces the importance of such efforts. To what extent have donors responded to these challenges?

Delegates to the Third International Roundtable on aid next to a cartoon depicting the absence of coordination among donors.

A clear consensus has emerged on what needs to be done

AN INTERNATIONAL consensus has emerged on what needs to be done to make aid more effective. Over 100 donors and partner countries meeting in Paris in 2005 endorsed a series of commitments to change the way aid is delivered. Donors and developing countries, in partnership, agreed to push for change in key areas, namely: strengthening country ownership; increasing alignment of donors to partner country priorities; ensuring that donors' actions are more harmonised and transparent; managing resources for results; and ensuring that both donors and partner countries are mutually accountable for those results. These commitments have become common currency in international policy circles.

Three years later, in September 2008, over 140 donor countries, developing countries, and non-DAC providers of development assistance, alongside civil society organizations and media met in Accra to review progress and to accelerate the implementation towards the targets set in Paris. The Accra High Level Forum was the culmination of one of the most extensive consultation processes ever held. The resulting outcome statement, the Accra Agenda for Action (AAA) signals considerable behavior change for both donors and developing countries.

The consensus reached in Paris and Accra shows that donors are "talking" to each other and to partner countries about changing the way aid is delivered. This is a necessary first step, which should not be underestimated. But what about "walking" the "talk?" Are donors standing still or really pushing ahead towards making aid more effective where it matters most, at the country level?

Results show progress—but not enough

THE 2008 SURVEY on Monitoring the Paris Declaration covering close to US \$45 billion of development aid in 55 countries shows that donors and partner countries have made some progress towards achieving the international commitments. For instance, over a third of partner countries have improved

FIGURE 1: PARIS INDICATORS ON AID EFFECTIVENESS: 2005 BASELINE VALUES, 2010 TARGETS AND DISTANCE TO TARGET IN 2007

The Paris indicators on aid effectiveness, 2005 baseline values, 2010 targets and distance to target in 2007

2005 Baseline			DISTANCE TO TARGET (IN 2007)				2010 Targets	
1	Operational Development Strategies	17%	24%					75%
2	Reliable Public Financial Management Systems		36%				50% countries improve score	
3	Aid flows are recorded in countries' budgets	42%	48%					85%
4	Technical assistance is aligned & coordinated	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	1817	1601					611
7	Aid is more predictable	41%	46%					71%
8	Aid is untied	75%	88%				Progress over time	
9	Donors use coordinated mechanisms for aid delivery	43%	47%					66%
10a	Donors coordinate their missions	18%	21%					40%
10b	Donors coordinate their country studies	42%	44%					66%
11	Sound frameworks to monitor results	7%	9%					38%
12	Mechanisms for mutual accountability	22%	26%					100%

Source: OECD 2008 Survey on Monitoring the Paris Declaration

their financial management systems. Moreover, ODA is increasingly untied (with an increase in untied aid from 75% in 2005 to 88% in 2006). The evaluation of the early implementation of the Paris Declaration shows that there has been a significant and tangible strengthening of national development policies and strategies.³ Donors are also now expecting partner country leadership and responding to it when exercised.

Despite movement in the right direction, however, the evidence also points to the fact that progress is clearly insufficient to meet the international targets for more effective aid set in Paris in 2005 [See Figure 1]. An area which received significant attention in Accra was the impact of un-coordinated donor activities and the excessive fragmentation of aid. Both the Survey and the Evaluation of the Paris Declaration suggest little progress on using co-ordinated mechanisms for aid delivery (2005-2007). The results show that whilst donors have been co-ordinating their missions and their country studies, the increase is of the order of a few percentage points—still far from the targets to be reached by 2010.

The lack of progress is especially disappointing given the fact that the fragmentation of aid clearly overburdens recipi-

EVIDENCE AT THE COUNTRY LEVEL: THE CASE OF ZAMBIA AND UGANDA

Uganda and Zambia have embarked upon Division of Labor exercises in 2006 and 2007 respectively, to address high transaction costs faced by governments due to fragmentation of aid. Significant gains have emerged in both countries as a result of the exercise.

- An Aid Mapping exercise in Uganda and Zambia allowed government authorities to better understand the current aid landscape in their own countries. In Zambia, a self-assessment instrument was designed to establish each partner's sector preferences, internal capacities, preferred roles and the perceived comparative advantage of donors in certain sectors. This "self re-positioning" was subjected to a peer review against other submissions. Comparative advantages of some donors over others were identified as a result, and donors who had no previous leadership role emerged as leaders in new arrangements. This also created the expectation that donors would exit from certain sectors, or take on a less visible role (the "silent donor").
- In both countries, the sharing of information and experiences was seen as particularly useful in forming a more complete picture of the aid architecture in the country; and fostering transparency on donor activities about which the government had previously been unaware.
- The exercise also led to streamlined communication with the government. Although the transaction costs of setting up such a division of labor processes were high at first, there are indications that ongoing transaction costs have been reduced as central government and ministries no longer have to continually communicate with every individual donor on the same issue.
- Another benefit was the creation of a platform to address common problems or constraints. In Zambia for instance, cooperating partners plan a high-level policy dialogue with the Government every year shortly before the budget preparation process.

At the same time, however, several challenges point to difficulties when it comes to donors actually disengaging or allowing countries to lead in the harmonization and co-ordination agendas.

- **DONORS "GANGING UP."** Zambian authorities were apprehensive about overly-intensive donor coordination efforts which were seen as conduits for stronger and unified donor pressure. In Uganda, donors were seen to take advantage of their position when chairing co-ordination groups with the effect that the policy dialogue and access benefited their institutions at the expense of other members of the group.
- **DONOR ATTRIBUTION AND VISIBILITY.** Assigning a role to the more "significant" donor countries was perceived as a major challenge in Zambia. According to the case study report, "Donors that carry gravitas cannot be seen to be just 'active' or operating 'in the background,' but must have a leadership role somewhere along the line."
- **DONORS DO NOT REALLY DISENGAGE.** Ongoing commitments meant that donors in both countries were reluctant to disengage from projects which could not simply be abandoned. Moreover, the inability of some donors in Zambia to channel funding through other donors prevented the effective withdrawal of donors from specific sectors.
- **EMERGING DONORS ARE NOT INCLUDED.** In both countries, new donors were not adequately engaged in the division of labor debates, which weakened the entire exercise.
- **NO CLEAR LEADERSHIP.** Neither donor nor government authorities were perceived to have the requisite skills in negotiation and facilitation required by such a politically-charged exercise. As a result, country leadership was perceived as weak or non-existent in some cases.
- **LEAVING STAKEHOLDERS OUT.** Key central government institutions were more informed and actively involved in the Division of Labor process than others in Uganda (sector ministries in particular), thereby reducing incentives to support and lead the exercise across the board. Sector ministries also had more to lose by relinquishing control over aid flows which bypassed central government.

Although Zambia is often cited as delivering "best practice" on harmonization and division of labor among donors at the country level, it is clear that donors are not walking the talk quite yet.⁶

ents who have to report to a myriad donors—many of whom provide little aid. Just 10% of Rwanda's aid, for instance, came from 22 donors (out of 33 donors present in 2005–2006) according to OECD/DAC statistical analysis.⁴ And yet, for each of these 22 donors no matter how small, reports, reviews, evaluations, audits, and meetings must be organized.

Beyond the high transaction costs, fragmentation undermines the countries' ability to lead, to determine their own development priorities, and to respond to their own accountability institutions. Ultimately it weakens the legitimacy of the state itself in the eyes of its own citizens. The unintended consequences have been well-documented: diverting governments' accountability away from citizens to donors instead, and weakening citizens' willingness to support state institutions with their taxes. Breaking this continuous and detrimental merry-go-round is essential to achieve the commitments set out by international consensus, but the results to date are not encouraging.

Why coordinating and harmonizing remains difficult

WHY HAVE DONORS YET to really walk the talk when it comes to harmonizing and co-ordinating their activities? Country case studies (see Box) report similar impasses to the best division of donor responsibilities and activities at the country level.

It is clear from the case studies that the need for donor attribution and visibility continue to weaken efforts to better harmonization and coordination. Donors provide aid for many different reasons and with different expectations attached.⁵ Donors often do not co-ordinate during the decision-making process for aid allocation. Instead, ODA funds are authorized by donor countries' parliaments, usually on an annual basis. The provision of aid is a domestic political decision by donors regarding the allocation of public funds; political priorities may push it in very different directions, making co-ordination all the more challenging. Despite public pronouncements to the contrary, political, commercial and strategic decisions, as well as historical ties remain important determinants of donor behavior. These considerations have sustained tying of aid to goods and services procurement from the donor country, and significant aid flows being directed to strategically important states.

Beyond commercial and strategic interests, donor countries and parliaments are also responding to domestic constituencies. Donors face public pressure to show that taxes channelled towards aid programs deliver results, there is no leakage of public funds towards non-developmental priorities, and the funds are allocated to those in most need. Public expectations in donor countries have an impact on both the direction of the allocation of aid and its delivery mechanisms. Legislative bodies, for example, are generally less keen on using partner country public financial management systems, or to make direct contributions to recipient country program budgets for fear of mismanagement or even corruption.

Despite international consensus on the bottlenecks to more effective aid, therefore, harmonizing with other donors

at country level may come up against the complex realities and motivations for giving aid, most notably the incentive for attribution. Donor domestic constituencies want to see their priorities reflected and acknowledged at the country level.

At the same time, developing countries' own priorities and motivations may also play havoc with the commitments that donors make to co-ordinate and harmonize their activities at the country level. Developing countries want to reduce transaction costs while retaining discretion over how aid is to be spent in accordance with their development priorities. To achieve this goal, developing countries must exercise strong leadership. However, government capacity to press donors to rationalize their activities may be lacking, especially given the fact that both sources and channels of aid have multiplied. At the same time, governments may find it difficult to change embedded incentive systems linked to un-coordinated donor funding. For instance, sector ministries that previously received funding directly from many different donors (at times without informing either the other donors or their central government agencies) may resist coordinated aid as it may lead to a reduction in funds. Moreover, strengthening the power of legislatures and CSOs in reviewing aid delivery at the country level is highly dependent on the individual country's receptiveness to include other stakeholders in its decision-making process over the allocation of aid.

Aid-receiving countries may not always want to see donors harmonize, as they could see competition among donors as being "healthy," in that it could ward off movement towards an "aid cartel." The fact that emerging donors have not engaged in harmonization discussions has in some instances been welcomed. As highlighted by the case studies, opportunities and challenges for more engagement and leadership at the country level are dependent on country context and in turn have significant impact on the success of harmonization efforts.

Acknowledging the importance of political dialogue

THE PARIS DECLARATION and the commitments in the Accra Agenda for Action are political undertakings. In the difficult process of implementation, real issues of power and political economy will come into play in both donor and partner countries, as borne out in the case studies above (Box 1). Some donors have realized that a purely technocratic approach is a necessary but not a sufficient condition to make donors honor their commitments.⁷ To better engage and understand partner-country political priorities, they have developed tools such as the Drivers of Change (DFID) and Democracy and Governance Assessments (USAID) to help focus on the opportunities and constraints on change, whether domestic incentives will support change, and the role of donors in assisting to put a new aid model into practice.

Integrating such considerations will ensure that real chances for local leadership are identified and that locally-designed solutions sensitive to each country context are not ignored. Donor countries must also recognize the politics of aid by facil-

itating a dialogue between their own legislature, audit institutions, government ministries and CSOs on the importance of building trust for development. Development is a complex process as noted above and success is not guaranteed. But without a certain amount of calculated risk, and without donors' willingness to move from individual attribution of aid efforts to contributions to collective efforts on outcomes, the lasting local capacities required for development will not emerge and the impact of development aid is likely to be short-lived.

Reshaping the international landscape to deliver on aid effectiveness

TO BE EFFECTIVE, international partnerships must be seen to be legitimate, representative and reflecting global realities. Discussions at the High Level Forum in Accra called on the current international partnership embodied by the Working Party on Aid Effectiveness to be more inclusive, to support cooperation between partner countries (often termed "South-South Cooperation"), and to foster coherence with other international initiatives (United Nations Development Cooperation Forum).

Ultimately, the full involvement of stakeholders is essential. In particular, the contributions of civil society are key and their role should be institutionalized within the current aid architecture. Civil society and media outlets will be calling their own ministers to account for their progress, practices and plans in improving aid effectiveness. They will be key to ensuring that donors and their partners, through peer or domestic pressure, put into practice what they preach at the international level.

Innovating rather than business as usual

THERE ARE SIGNS OF PROGRESS as new mechanisms emerge to facilitate implementation of the Accra Agenda for Action. That agenda's call for greater transparency and capacity was reflected in mechanisms which emerged in Accra to respond to these commitments. For instance, the International Aid Transparency Initiative (IATI) was endorsed by the European Commission, GAVI,⁸ UNDP, World Bank, nine bilateral donors and the Hewlett Foundation. It is intended to promote transparency by sharing more detailed and up-to-date information about aid; and in a format accessible to a broad array of stakeholders. More transparency on aid flows will be an important step in allowing countries to take the lead in determining sector priorities, and in ensuring that countries are accountable for results. Another initiative, the Statistics for Results facility, builds on the work of PARIS 21 (Partnership for Statistics in the 21st Century) which fosters strong domestic constituencies for the development of statistical systems at the country level. Currently, statistics are largely supply-driven. However, local demand is crucial for their sustainability and access to information for CSOs, and media to be able to report on the successes and remaining challenges in meeting development goals. This new Facility will help finance the

reorganization of dispersed statistical programmes in developing countries into more integrated and sustainable national statistical systems. This implies work by donors on the ground, under a lead donor, to rationalize the piecemeal donor support for statistical projects. Ultimately, this initiative is intended to build capacity for country systems in a sector which is vital for evidence-based policy-making and true ownership by developing countries.

Keeping on track with international commitments to increase aid

AS OUTLINED ABOVE, in the context of a looming recession in many donor countries, better aid and lasting development results are essential to encouraging increased financing for development. Ensuring international financial commitments remains a challenge. Weaker growth in advanced economies will affect partner countries in different ways. They will likely face weaker capital flows, drying up of remittances, falling export revenues and higher borrowing costs. Many donors have made commitments to significantly increase their aid. Now more than ever, it is important that they make the budgetary provisions, even in these uncertain financial times, to provide predictable assistance in line with their promises.

Significant progress needs to be made if the Paris Declaration, and now the Accra Agenda for Action are to lead to real improvements on the ground. For now, donors are "talking the talk"—the importance of which should not be underestimated. However, if the 1.4 billion people who still live in extreme poverty are to be given a real opportunity to improve their lives, the governments and other participants must start to "walk the talk."

Eckhard Deutscher is Chairman of the Development Assistance Committee and Sara Fyson is Policy Advisor, Organization for Economic Cooperation and Development.

Notes

- 1 OECD-DAC, 2008 "2008 Survey on Monitoring the Paris Declaration," Paris.
- 2 Country Case Study: 3rd High Level Forum on Aid Effectiveness, Tanzania: Harmonisation of Reforms in the Health Sector, September 2008.
- 3 OECD-DAC, 2008 "Evaluation Synthesis Report on Implementing the Paris Declaration," Paris.
- 4 EOECD (2008), Scaling Up: Aid Fragmentation, Aid Allocation and Aid Predictability: Report of 2008 Survey of Aid Allocation Policies and indicative Forward Spending Plans and OECD(2008) DAC report on multilateral aid (forthcoming).
- 5 See Riddell, R (2006) "Does Foreign Aid Really Work?", Oxford University Press, Oxford for a comprehensive overview.
- 6 Country Case Study: 3rd High Level Forum on Aid Effectiveness, Harmonisation and Division of Labour in Zambia, Roundtable 3, September 2008.
- 7 Armon, J (2007) "Aid, Politics and Development: A Donor Perspective," in Development Policy Review, 25 (5): 653-656.
- 8 The GAVI (Global Alliance for Vaccines and Immunization).