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Delivering Aid Differently—Lessons from the Field

Wolfgang Fengler and Homi Kharas

The global aid environment has changed profoundly over the last decade. New official and nonstate players have emerged as prominent actors, new challenges like climate change and stabilizing fragile states have arisen, and new approaches to providing aid are being tried. This note summarizes findings presented in the authors' 2010 publication, Delivering Aid Differently—Lessons from the Field.[1]

We live in a new reality of aid. Rich countries delivered $3.2 trillion of aid to poor countries between 1960 and 2008, and aid is a $200 billion industry today. Despite disputes and upheavals, the core of the aid architecture—the set of rules governing aid flows—has changed little over the past few decades. Now the new dynamics of aid may be too strong to resist fundamental change.

Delivering Aid Differently (Fengler and Kharas 2010) was written at a time when the future of foreign aid is being fiercely debated. On one hand, aid experts (including Peter Singer [2009] and Jeffrey Sachs) support a huge increase in the size of foreign aid budgets, faulting a lack of donor generosity for the continued existence of severe poverty. Their message: aid works; we just don't do enough of it.

In scathing critiques of aid, on the other hand, William Easterly (2006) and Dambisa Moyo (2009) argue that by detaching recipient governments from accountability to their citizens, aid has retarded the progress of poor countries. Between these camps, aid practitioners argue that foreign aid works well when it is done right. The key is to learn lessons to improve aid effectiveness.

What should we believe when there is such disagreement among experts? If development aid is really so ineffectual, why has it increased so rapidly over the last decade? Why have so many new countries, individuals, celebrities, foundations, and other groups joined in giving aid?

Although all sides have some good arguments, we believe that the developments of the last decade have radically reshaped the aid environment and that traditional arguments no longer hold. Today, the main paradox of aid is that despite increasing flows and more players, aid has declined in *relative* importance in most countries.

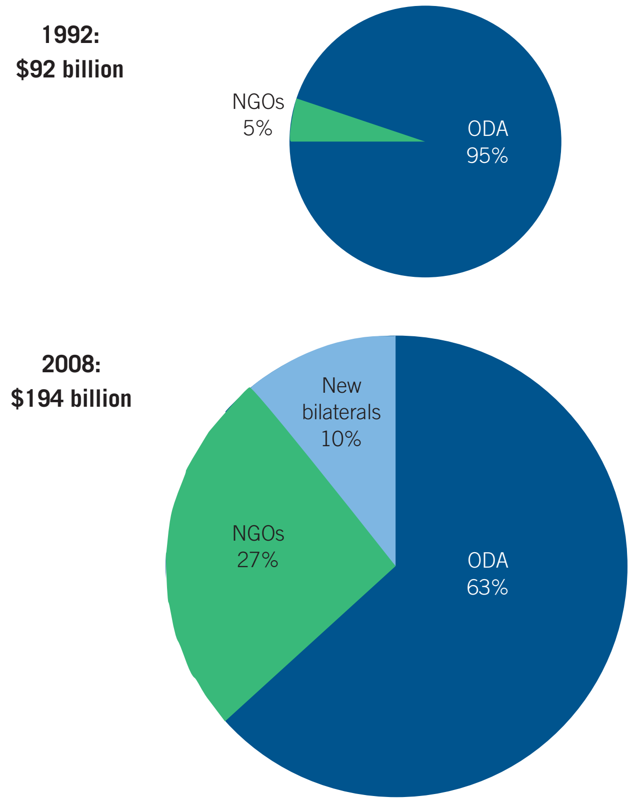
This new aid environment is characterized by three important shifts that have emerged in the last decade:

1. Strong growth in many developing countries has redefined the role of aid. Several countries (notably in East Asia) have fulfilled the dream of development aid—to make it nearly obsolete. For many years, foreign direct investment has exceeded aid by a wide margin. Developing countries' demand for aid is now increasingly differentiated. Gone is the "third world" as a homogenous block of poor countries in the South. Even in Africa, many countries have been growing fast since 2000.
2. The donor landscape has changed fundamentally over the last decade, a trend that will likely accelerate in the coming years. New private players—international nongovernmental organizations (NGOs), foundations, and corporations—are responsible for an ever-larger share

of aid volumes. Private philanthropy from developed countries to developing countries now tops $60 billion annually. These new players have brought fresh energy and approaches to the delivery of aid. But although the volumes of aid are growing, the average project size—even for traditional donors—is shrinking. Small projects can deliver benefits to isolated communities, but they also increase aid fragmentation that multiplies administrative costs and complicates donor coordination by recipient governments. In 2007, for example, official donors sent more than 30,000 missions to manage their aid projects.[2]

3. Innovation, especially in information technology, has started to reshape development aid. Knowledge transfer has become as important as financial aid, and combining the two can be remarkably transformative. We believe that information—the hardest currency in the 21st century—ought to be at the center of aid delivery models. Recipient countries could champion a "single-window" approach to aid regulation, whereby all information can be found systematically. Such an approach would reduce the confusion and inefficiency of current delivery methods. These one-stop information systems would more readily point out the comparative advantages of different providers and make known what each player is doing.

Figure 1. Total Development Assistance, 1992 and 2008



Source: Authors' calculations based on OECD/DAC (2008) and Hudson Institute (2009).

The New Reality of Aid

Over the last two decades, aid has been growing strongly: more than doubling from $92 billion in 1992 to around $200 billion in 2008, and representing a 50 percent increase in real terms. Most aid still comes from the members of the Development Assistance Committee (DAC), a club of 22 rich countries ($120 billion) providing official development assistance (ODA). However, a large and increasing portion (some $65 billion) comes from private NGOs, foundations, faith communities, and corporations. A further $15 billion or more comes through bilateral aid from non-DAC governments. This means that two thirds of the growth in aid flows since the early 1990s has been coming from nontraditional sources, and a third has come from DAC members (see figure 1). However, pledges to dramatically increase aid made by G-8 countries whose representatives gathered at Gleneagles have largely fallen short of their targets.

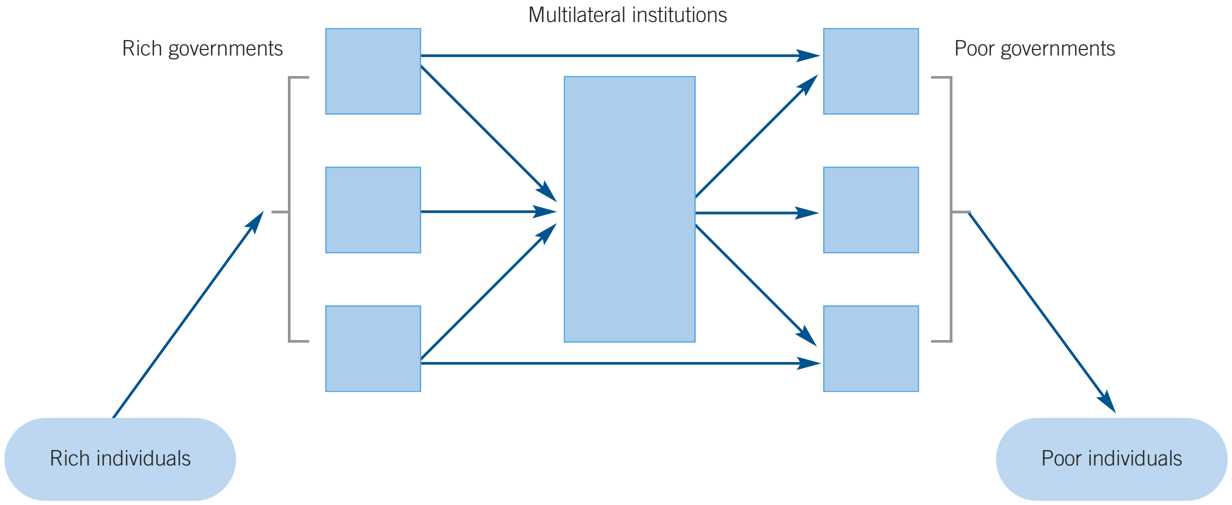
Several studies show that there can be large differences in aid, depending on the method of counting (Hudson Institute 2009). Think of two options to provide technical assistance: In the first case, the development agency uses predominantly international consultants. In the second case, it uses mostly local expertise and networks. Even if the second case proved to be more effective, the amount of recorded aid would be substantially lower (perhaps one tenth as much) because salaries of local experts are so much lower than those of international experts. There are examples in which much of the aid pays for multiple teams of foreign advisers who give sometimes contradictory advice—thus, that aid funds duplicative and unnecessary efforts and is wasted, with most of the money going to foreigners.

Beyond the problems in categorizing aid, however, the more fundamental issue is that aid is coming from more places and being allocated through more channels. The growth in aid volumes is paralleled by a growth in the number of aid agencies involved. In a recent count, some 263 multilateral aid agencies give money to promote development (Kharas 2010). "Vertical" multilateral agencies that focus on a single theme (such as the Global Fund for AIDS, TB and Malaria) are now large providers of aid. There are at least 56 countries with aid agencies that provide bilateral foreign assistance, and most of these have several agencies that undertake such programs. More and more countries are opening up new aid agencies. In the past few years, economies such as those of Brazil, China, India, the Republic of Korea, Turkey, and República Boliviariana de Venezuela have developed large aid programs. New international aid players include some countries that are still characterized as developing economies.

These flows are changing the aid architecture. Figure 2 shows the old reality of aid flows, illustrating how a large majority of aid was organized for much of the second half of the 20th century. Taxpayers in rich countries provided money to their governments to channel, either directly through bilateral programs or indirectly through multilateral organizations, to governments in poor countries. The recipient governments, in turn, used the money to deliver services to poor beneficiaries through development projects.

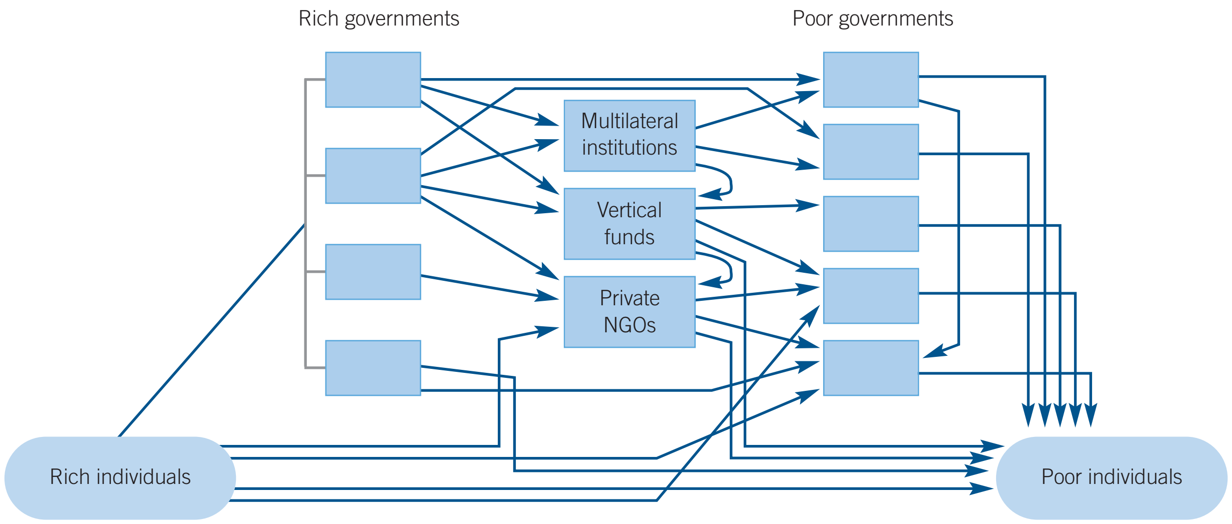
However, that flow pattern no longer adequately describes the majority of aid flows. New players—including international NGOs, foundations, and private corporations—channel significant volumes of large and small contributions. Hudson Institute's (2009) recent estimate of private giving for international development measured private philanthropy from developed to developing countries as an annual minimum of $49 billion and possibly as much as $70 billion. The aid landscape now includes thousands of privately funded international NGOs and perhaps hundreds of thousands of community-based and civil society organizations in developing countries themselves. As a result, aid from non-DAC bilateral donors and private sources of funding soon will rival in size the traditional aid from rich countries. The aid picture now looks more like what is depicted in figure 3.

Figure 2. The Old Reality of Aid



Source: Authors' illustration (Fengler and Kharas 2010).

Figure 3. The New Reality of Aid



Source: Authors' illustration (Fengler and Kharas 2010).

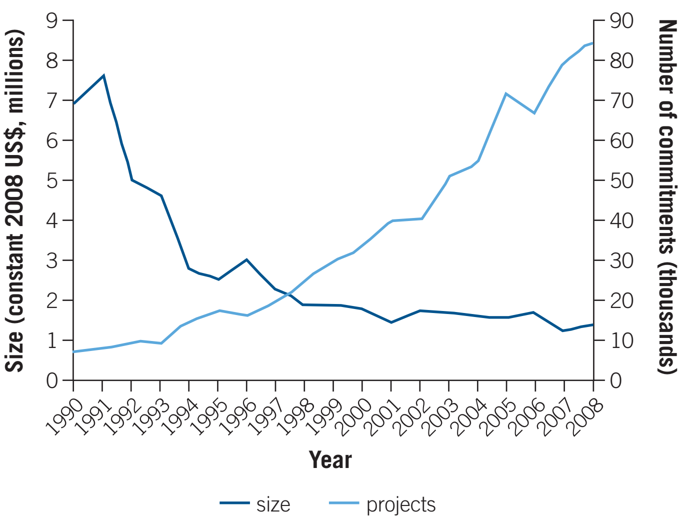
Existing aid monitoring mechanisms tend to handle new donors poorly. Many databases that track aid incorporate only ODA funding data or offer spotty coverage of NGO and vertical fund projects. This means that they leave out some 40 percent of the aid flows. As a result, projects funded by emerging donors are often tracked in disconnected systems that may fall into disarray when funding is interrupted, or simply are not subject to any monitoring.

Aid Fragmentation

The multiplication of donors has also led to greater fragmentation of aid into ever-smaller activities. Globally, as the number of donors has increased, the number of new aid projects has skyrocketed and the average project size has shrunk drastically. In 2008, the DAC bilateral donors registered 84,764 new aid activity commitments, up from 15,750 in 1996. Over the same period, the mean size of activities fell steadily, to a level of $1.35 million in 2008 from $2.97 million in 1996. The median size of a new activity is now only $87,499. It appears that the increase in total ODA is the result of adding many small new projects rather than of scaling up projects that work well (see figure 4).

Of course, small projects in themselves are not bad. They are an important source of experimentation and innovation. They may be able to provide exactly what is needed in isolated communities where small amounts of money can make a significant difference in people's lives. But the fragmentation of aid comes at a heavy price. Each project must be prepared, negotiated, supervised, and reported on. Many projects create project implementation units and steering committees entirely outside existing bureaucracies. These structures incur substantial administrative costs and may weaken domestic institutions by poaching scarce staff from key government positions. One evident cost of fragmentation is the time government officials spend receiving high-level delegations from donor organizations. In Cambodia, senior government officials spend half their working hours meeting with donors (Ek and Sok 2010, p. 72). Multiple project implementation structures may also create systems that bypass government structures and procedures, and small projects are less likely to be included in recipient country budgets.

Figure 4. Trends in Project Size and Count, 1990–2008



Sources: U.S. Census Bureau; Banco de Mexico.

A survey to monitor implementation of the Paris Declaration targets for improved aid effectiveness found 2,473 active project implementation units parallel to government systems. Because the sample covered countries receiving just over half of ODA, the total number of parallel project implementation units in developing countries may be closer to 5,000 (OECD 2008).

Aid Volatility

Net ODA disbursements, seen from the perspective of a recipient country, are highly volatile; and that volatility diminishes their value. From the early days of development assistance, the Resolution of the Common Aid Effort in 1961 recognized that "assistance provided on an assured and continuing basis would make the greatest contribution to sound economic growth in the less-developed countries" (OECD 2006, p. 10). Unfortunately, that understanding has not been put into practice. In terms of loss of national income, aid shocks in poor countries have been as large and as frequent as the major global economic shocks faced by rich countries over the last century—namely, the Great Depression, the two World Wars, the Spanish Civil War, and the recent global recession. The risk of an aid cutoff in aid-dependent economies may have significant consequences for how aid is used.

It is useful to focus on episodes of aid crises because there is strong empirical evidence (World Bank 2005) that crises are what matter most in reducing growth. Aid crises have significant disruptive effects on exchange rates, public investment, and inflation. Sound macroeconomic policy—universally acknowledged as the foundation of growth and development—is impossible with high aid volatility, especially if such volatility tends to compound the normal business cycle. At a macroeconomic level, the volatility of country programmable aid is seven times as great as the volatility in GDP and three and a half times as big as the volatility of exports.[3]

Volatility is higher in the poor and fragile countries and in those where political or security concerns play into donor funding decisions. Thus, Pakistan, despite its relatively robust homegrown coordination mechanisms, has seen highly volatile aid flows in recent years, driven largely by swings in U.S. grant aid. Short-term orientation in aid planning is also a direct cause and consequence of high aid volatility. In Pakistan, approximately 34 percent of overall disbursements

Table 1. Old and New Models of Aid Management

Aspect	Old model	New model
Overall approach	International coordination and burden sharing; collaboration between headquarters dominates	In-country coordination and collaboration by recipient governments, differentiated by situational demands
Sources and channels	Official development aid focus	Diverse multiplayer, multichannel aid
Programming	Annual	Multiyear, dynamic
Delivery	Project-based, fragmented	Programmatic, scalable
Capacity building	Capacity substitution, technical assistance	Capacity development, local networks
Information systems	Global	Global and local

Source: Authors' analysis.

from ongoing development projects in 2008 were from projects with durations of three years or less. Thirty percent of all projects extended over a period of more than five years (Malik 2010, p. 139).

Major donors are wary of trusting weak governments with large amounts of money, and new donors have not yet stepped in to cushion in a coordinated fashion the swings in aid from traditional donors. But the resulting instability in aid flows carries its own costs and reduces the benefits of aid, even when recipient governments improve their performances.

The case of Kenya highlights the costs of volatility on the ground. Over the past decade, the government has refused to incorporate committed aid into the national budget because the funds too often fail to materialize. A former Kenyan finance minister confronted the development partners, stating, "Although some programme grants and loans may materialize during the course of the year, if and when such additional resources materialize, I will use them for reducing our outstanding domestic debt" (Mwega 2010, p. 117). His point: aid in Kenya is too unreliable to be treated as a source of financing for expenditures, but should be thought of as a windfall. If it arrives, it is saved (debt is reduced). If it does not arrive, expenditures can be retained at their budgeted level.

A New Aid Model for the 21st Century

Aid can work, but it needs to be delivered differently to create lasting impact in the years to come. Today, aid needs to leverage knowledge—the hardest currency of the 21st century—to evaluate programs, identify successes, and then scale up. A new consensus can be built around the ideals of information openness and decentralization of coordination efforts. Networks of aid coordinators and aid agencies would share information around the world, driven by common standards for data management. With these improvements, money that is intended to help poor people will reach them in more efficient and equitable ways, and it will help deliver greater development results (table 1).

A fix for the development aid system—by expanding the old model to include aid from large, new bilateral donors or by pursuing local ownership through joint country strategies—could help improve efficiency in some cases. Three principles could provide useful guidance for a new model of aid delivery:

1. Aid should be differentiated by country circumstance. This may sound obvious but, in practice, there is a tendency for donors to lump countries into categories: fragile states, low-income countries, small island economies. Although classification is useful, across the universe of 152 countries that the DAC recognizes as eligible for ODA there are always many more categories of differentiated country circumstances that should be reflected in the delivery of aid.
2. The delivery system should build on the diversity of aid providers. Different providers have different comparative advantages. To identify and focus on these unique advantages, each provider must know what the others are doing. Too often, this is not the case. The number of non-DAC donors and their overall share of aid is likely to continue growing over time, and mechanisms must be found to enable all players to be well informed. Field-based coordination meetings have not been very successful, except in some cases where a focused sectoral approach is taken. Many donors have no significant field presence or do not delegate management to the field, so decisions constantly must be referred to headquarters. As a result, there is significant coordination fatigue.
3. The focus should be on the dynamics of development. Individual project success does not always add up to systemic change. Projects that work well are not systematically scaled up. Donors have limited long-term engagement in or accountability for results in a given area. A focus on dynamics can mean changing the institutional setup, with more aggressive monitoring, evaluation, and assessment of development results. Scalable and programmatic approaches commensurate

with country needs have to be encouraged. It is important to identify needs, interventions, and gaps at a local and sectoral level, and to monitor progress in these areas systematically over time.

Coordination

The Paris Declaration on Aid Effectiveness attempted to counter the fragmentation of donor interventions. The declaration was based on the premise that aid can never be more than a complement to a government's own efforts because aid flows hardly ever exceed a government's own spending, even in the poorest countries. It encouraged donors to use country systems and align with country priorities. Implementing this principle, however, has been slow across the board: traditional donors still rely on their own systems; emerging bilateral donors often tie their aid to specific projects; and private aid donors raise funds for specific purposes, usually for social projects. The result has been an increasing imbalance in sectoral aid allocations.[4]

New coordination strategies aim to fix or expand the current model of state-based aid, and they have had some modest success in improving alignment with recipient-country programs and harmonization among official DAC donors. Nevertheless, in the absence of a new and better coordination mechanism that includes emerging country donors and private NGOs, the existing aid system will face two fundamental challenges:

1. The system risks reverting to a pre-Paris Declaration mode in which traditional players will be reasonably coordinated but the overall system will remain fragmented, resulting in sectoral and geographic misallocations of aid.
2. There will be a risk of renewed "monument building" and greater emphasis on concrete outputs than on broader development results. Although it is easiest to report tangible outputs in education, health, and infrastructure, the main challenge in most developing countries is the improvement in service delivery *systems*. Support for more abstract activities, such as institutional reform, is much more difficult to mobilize among donors and taxpayers in rich countries. These are long-term programs and they demand strong and trusted relationships with local stakeholders, both inside and outside government.

In the new aid architecture, the inherent challenge of coordinating aid has not changed—but the magnitudes have. In the past, a developing-country government could convene the top 10 donors and cover more than 90 percent of the aid flows. Today, the top 10 donors typically account for less than 60 percent of total aid. Obtaining information about aid flows and development impact is key so that governments and donors can adapt development strategies to take into account what others are doing. The issue is to create a forum where there is a balanced representation of stakeholders to build voice and participation, but not so many as to reduce effectiveness and decision making.

Such a model would allow for better integration of new donors and would address the criticisms of those who worry that coordination may stifle effectiveness and innovation in the absence of a more competitive, market-driven approach to development. We believe that aid coordination implemented correctly can yield benefits of tens of billions of dollars by preventing waste and achieving sustainable and fair development outcomes.

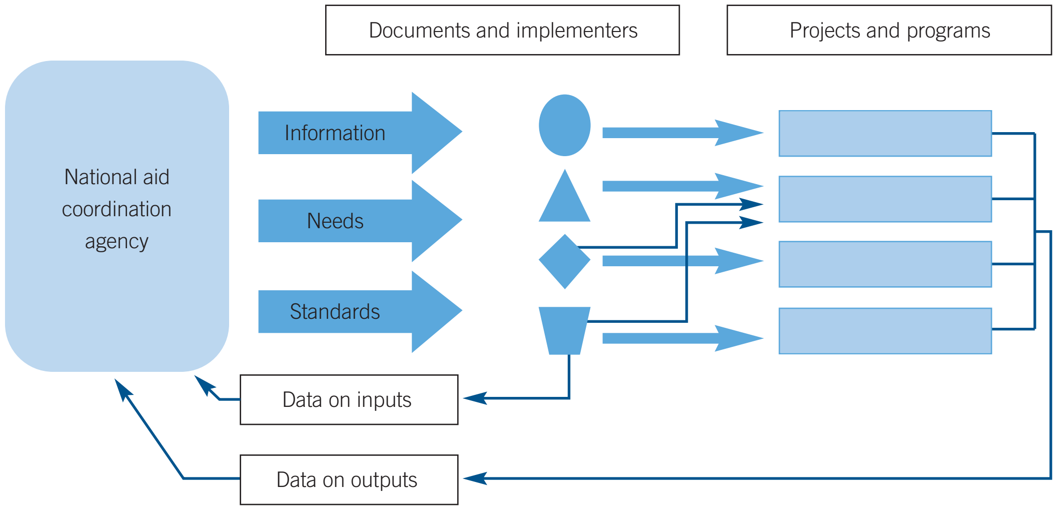
A fix for the development aid system—expanding the old model to include aid from large, new bilateral donors or pursuing local ownership through joint country strategies—can help improve efficiency in some cases. This is especially true in sectors such as infrastructure where large official loans from relatively few donors are still the dominant funding channel. In other cases, however, it is unlikely that an expansion of the current aid coordination system will be sufficient. The number of players is too large and the diversity of their approaches too great to return to the central planning approach of the past. What is needed is an innovative aid model that incorporates new donors and aligns with national development strategies. We suggest each country develop its own aid coordination agency.

Information

At the level of a recipient country, a single-window approach to aid regulation would be most effective in reducing the confusion and inefficiency that typifies the current system. Each country's aid coordination agency should provide three basic services to donors and implementing agencies (see figure 5). First, it should be the source of reliable *information* about planned and ongoing projects in the country, covering all existing projects financed by the government and by both public and private foreign donors. It would provide data on "who does what where" and should share lessons from project and program implementations. Second, it should compile and analyze data from other organs of government to present a single list of *needs* and to alert donors to gaps. Third, it should debate, adopt, and enforce a basic set of *minimum standards* among a country's donors and implementing agencies. These standards would include measures to ensure transparency and prevent corruption, protect against discrimination, and discourage waste. They would include approaches to mainstream gender and environment issues.

In the case of economic development and poverty reduction, the goals of a coordination strategy are to achieve scalability of projects, predictability of aid flows, efficient division of labor, and low transaction costs. Whereas the national aid coordination agency will play only a small direct role in

Figure 5. Country-Level Aid Coordination



Source: Authors' illustration (Fengler and Kharas 2010).

securing these benefits, many of the other necessary elements of an aid coordination architecture will arise naturally in the presence of open information. If donors are given information on what projects are achieving notable outcomes, they will be able to pool their resources to scale up those projects to reach more people. Projects that duplicate each other's efforts will be identified and adapted to reflect a more logical division of labor, either by splitting up different stages of the work or by operating in different geographic areas. More generally, a geographic division of labor opens up the possibility for competition among aid agencies—a potentially powerful driver of efficiency—or for tournament-based or cash-on-delivery grant programs that offer funding to the first organizations to meet certain benchmarks as measured by the aid coordination agency.[5]

Conclusions

We advocate two institutional changes. First, we encourage the development of one (or more) geographically based development authorities within poor countries, with a focus on providing the information that is needed to run an efficient aid program. Aid agency behavior needs to change. Individual aid and government agencies have no inherent incentive to coordinate or share information. Their primary focus is on showing their stakeholders tangible results for their specific investments and on mobilizing new funding. This has resulted in a system where the whole is smaller than the sum of its parts.

Second, we argue for an international body of national development aid agencies to deliberate, share best practices, and provide an informal mechanism for holding aid agencies accountable to their ultimate beneficiaries—the poor people of the world.

Those who seek to improve aid coordination recognize flaws in the aid system, but also see the promises of aid. Foreign assistance cannot replace private investment or recipient-government programs in achieving desired development outcomes. However, efficient and well-coordinated aid is critical to meeting the urgent needs of the world's poor people and to speeding them along the path toward prosperity. Coordination allows for aid that better meets needs on the ground, avoids waste, and achieves fair outcomes.

A new consensus can be built around the ideals of information openness and decentralization of coordination efforts. In place of disconnected sets of large bilateral donors, multilateral organizations, and private agencies, we encourage locally controlled agencies that promote competition among donors with high-quality information on needs, aid inputs, and aid outcomes. Networks of aid coordinators and aid agencies would share information around the world, buoyed by common standards for data management. At the end of the day, the money that is intended for poor people will reach them in more efficient and more equitable ways.

Notes

1. The book includes an overview; case studies of Aceh/Indonesia, Cambodia, Ethiopia, Kenya, Pakistan, and Tajikistan; and thematic chapters on joint assistance strategies, information systems, and humanitarian aid.

2. The *Survey on Monitoring the Paris Declaration* (OECD 2008) finds 14,000 missions in the 55 countries surveyed (p.

15). Extrapolating to all aid yields an estimate of 30,000 missions globally.

3. Table 1 of Kharas (2008, p. 8) compares the coefficient of variation of detrended country programmable aid with those of GDP and exports.

4. At the aggregate level, there has also been a substantial increase in ODA allocations to social sectors, whereas aid for infrastructure and production have declined from 59 percent to 38 percent between 2001 and 2004 (IDA 2008, p. i).

5. For further discussion of how tournaments and competitive structures can contribute to aid efforts, see Zinnes (2009).

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About the Authors

Wolfgang Fengler *is the lead economist in the Nairobi office of the World Bank, where he covers Eritrea, Kenya, Rwanda, and Somalia. He joined the World Bank in 2000 and worked in Africa and Asia. From 2004 to 2009, he was a senior economist in the Jakarta office and managed the Public Finance and Regional Development team. There he published extensively on Indonesia's public finances, decentralization, and the post-tsunami reconstruction process.* Homi Kharas *is a senior fellow and deputy director of the Global Economy and Development program at the Brookings Institution. He is a nonresident fellow of the OECD Development Center and a member of the National Economic Advisory Council to the Malaysian prime minister. He was a member of the Working Group for the Commission on Growth and Development, chaired by A. Michael Spence. Previously, Kharas served as chief economist for the World Bank's East Asia and Pacific region and as director for poverty reduction and economic management, finance and private sector development.*

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