



Aid Effectiveness

Where is it going, and what could you do?

19 May, 2010

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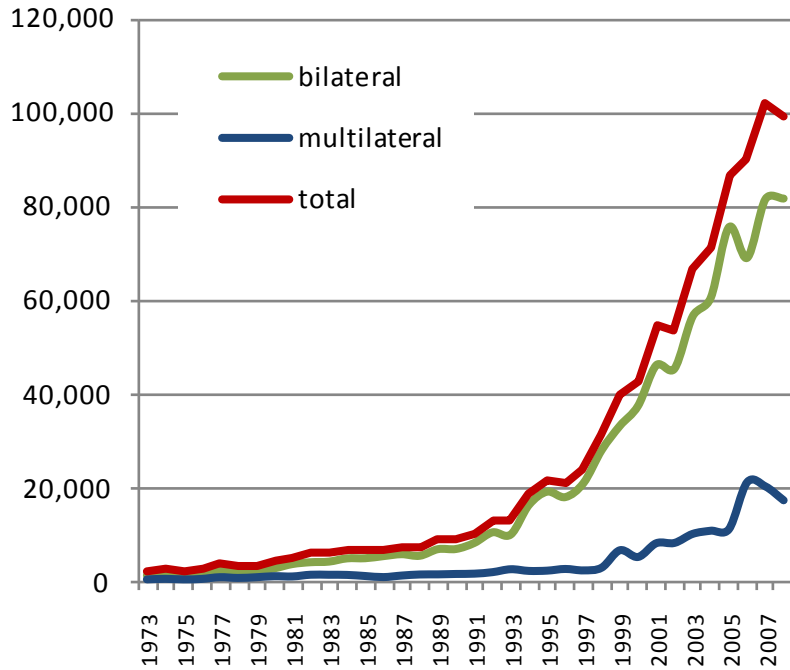
This presentation: www.owen.org/musings

Aid effectiveness matters

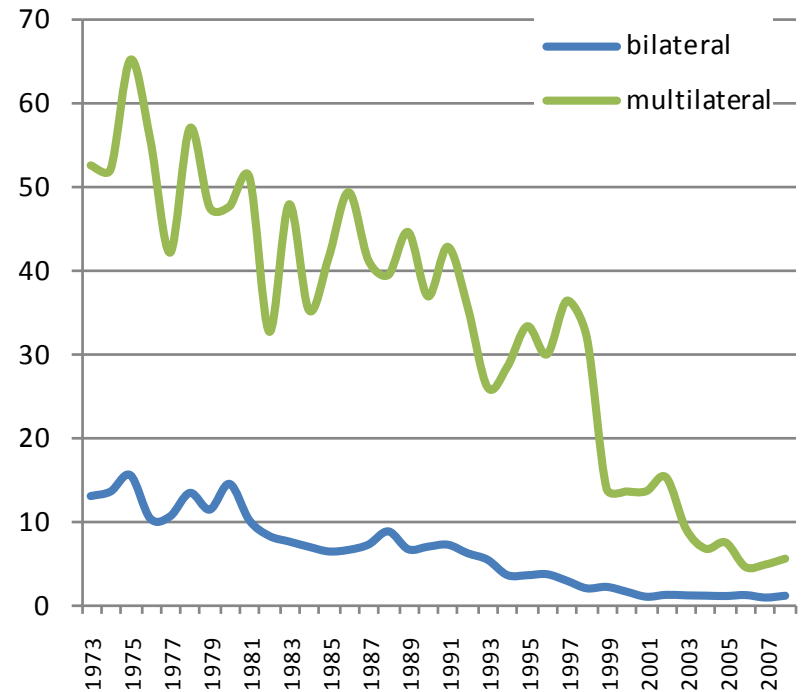
Lack of predictability costs
15-20% of the value of aid

Source: Kharas, H. (2008). Measuring the Cost of Aid Volatility.
Wolfensohn Center for Development Working Paper No. 3.

Aid projects are proliferating ...



... and project sizes are falling



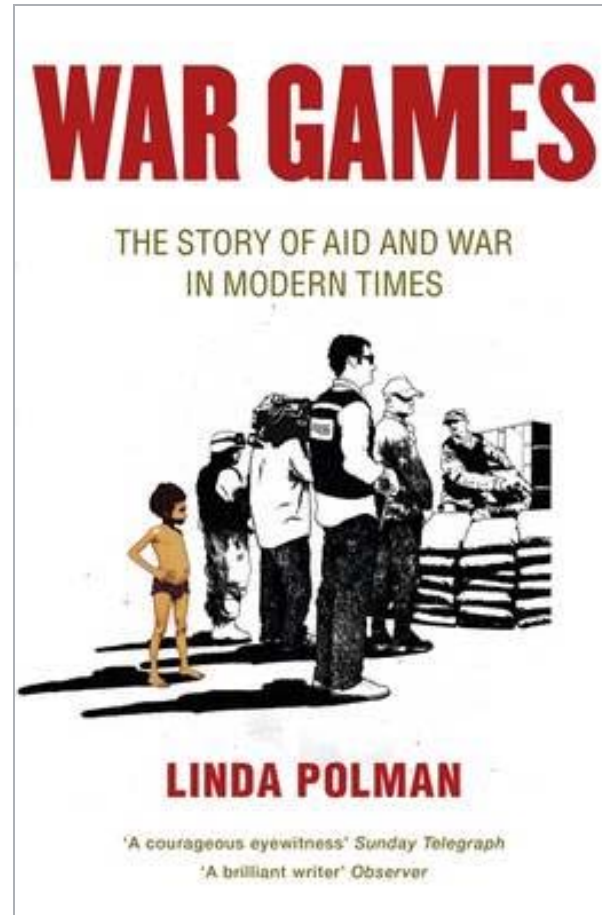
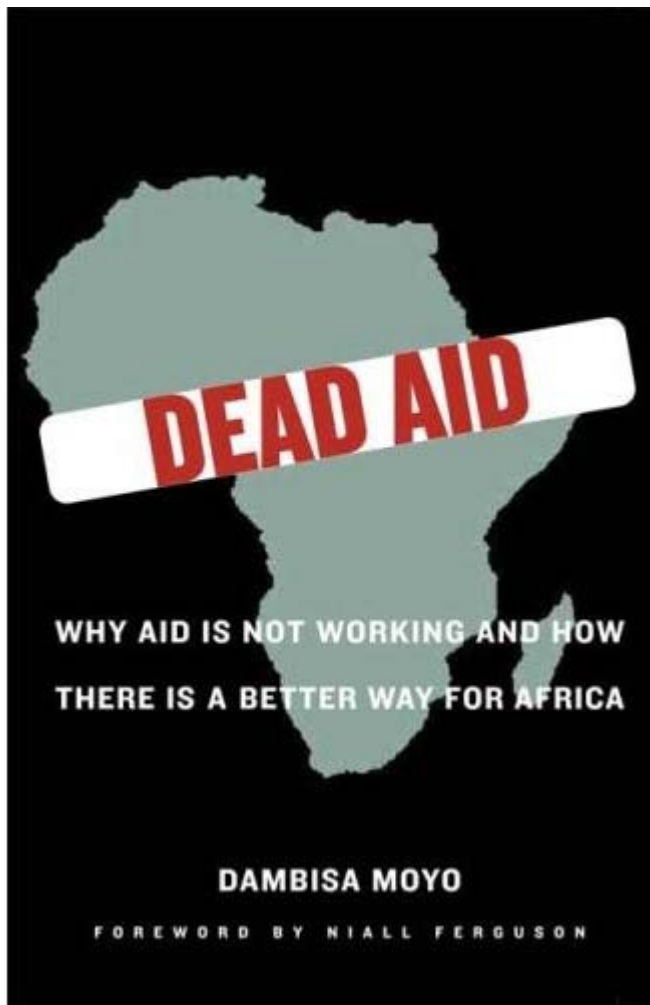
Source: AidData (www.aiddata.org)
 March 2010

Tying reduces aid's value
by 20-30%

12.5% of bilateral aid from DAC
donors is still tied

Sources: OECD DAC Database Table 23
(excludes administration and technical assistance)

OECD DAC *The Tying Of Aid*
<http://www.oecd.org/dataoecd/16/56/29412505.pdf>



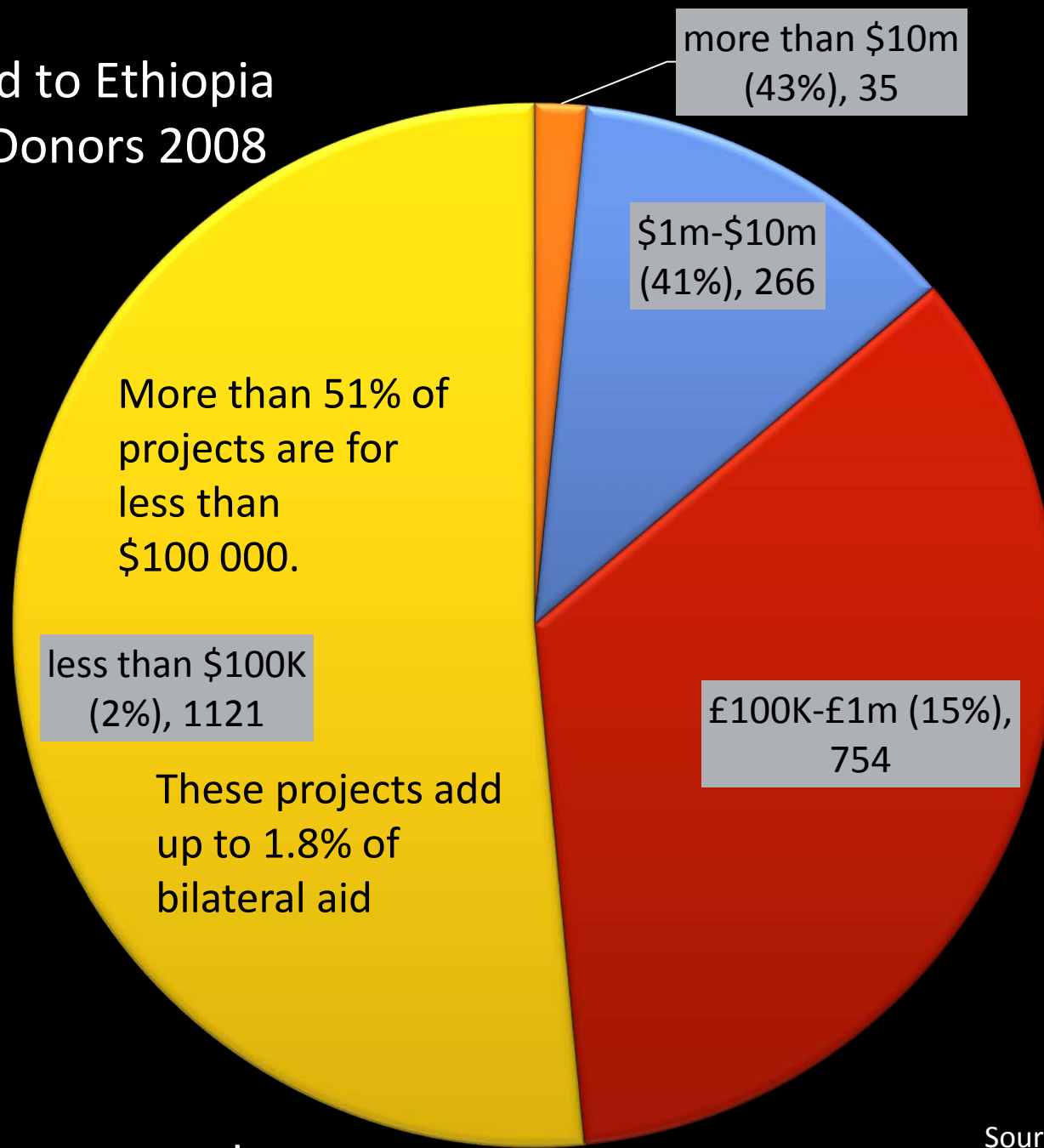
**Paris is
not
working**



An example
of why
Paris won't work

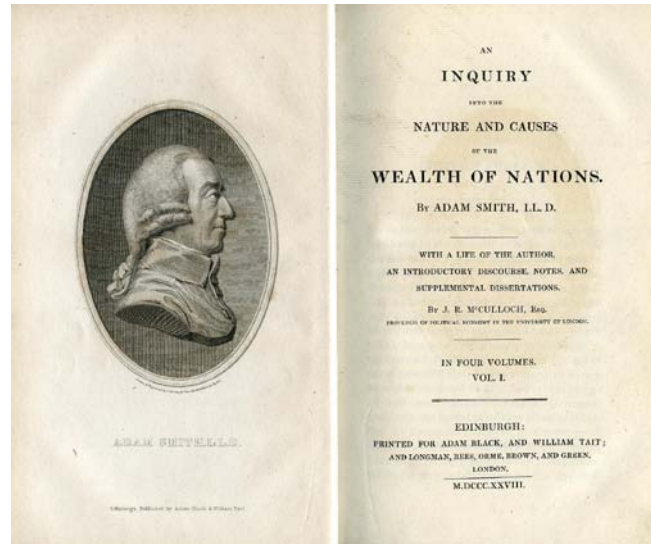
Proliferation
and the division of labour

Bilateral aid to Ethiopia from DAC Donors 2008



2176 Projects reported

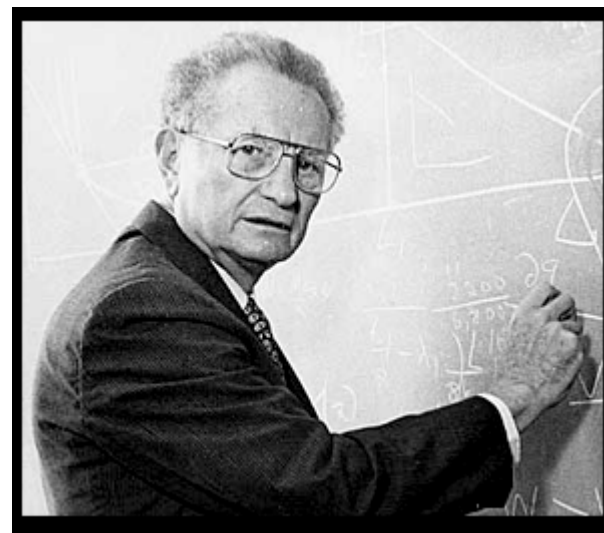
Source: DAC CRS Database
May 2010



Total welfare of society is increased when individuals and firms produce according to their comparative advantage

Comparative advantage is
*“the only idea in the social
sciences that is both true and
non-trivial”*

Paul Samuelson
1915-2009



Chat, corn and coffee



The opportunity cost of growing *chat* is the value of the coffee that would have been grown instead



There is no coffee shop committee



A better division of labour
is a result not a process



EUROPEAN COMMISSION

Directorate-General Development and Relations with African, Caribbean and Pacific States

Director-General

Brussels, 04 FEB. 2010
D(2010) 53488

Dear Colleagues,

“In cases where EU donor’s own view of their comparative advantage does not match their actual sector engagement we should make decisions – where possible coherent and collective EU decisions – on the basis of complementarity vis a vis other EU donors’ engagement.”

- Nine sectors have around 20 donors or more: Health (24), Governance/Civil Society and Multi-Sector (each 23), Reproductive Health, Education and Other Social Infrastructure (each 22), Water Supply and Sanitation (20), Agriculture and Economic Infrastructure (each 19).
- The average EU donor is active in nine sectors (from very small to large amounts).
- Each sector is on average receiving funding from 13 EU-donors.
- There were, in total, 1840 projects in Ethiopia in 2007¹.

I strongly believe that this is not the most efficient way of channelling our aid to Ethiopia. Clearly there are unnecessary costs arising from the preparation, negotiation, implementation, monitoring and enforcement of agreements for the delivery of aid. The sheer number of procedures, reports, and visiting donor missions² that Ethiopia has to handle every year must entail huge operational costs, including the tying up of scarce national managerial capacity. This "aid ineffectiveness" reduces the development impact of our aid.

In Ethiopia we have had a lot of information in place to move forward, and yet progress is still very slow. Through a donor self-assessment in December 2008, EU donors have identified which sectors they see themselves as having a comparative advantage in (see Annex 1). Despite this, EU donors in Ethiopia continue to be engaged in many more sectors than they say they have a comparative advantage in. Furthermore, if we examine EU donors' actual engagement (using the new concept of "significance" developed by the DAC³) we find that it does not always line up with the sectors in which donors say they have a comparative advantage. In other words, donors' sector priorities are not always reflected in the "significance" or volume of their aid.

This information is brought together in the attached colour annex (see Annex 2). Green indicates where donors say they have a comparative advantage and have a "significant" aid relationship, while red indicates the opposite situation. It is obvious to me that the starting point for division of labour should be in concentrating our aid in the green areas and exiting the red ones. In cases where EU donor's own view of their comparative actual sector engagement (orange and yellow), we should make possible coherent and collective EU decisions – on the basis of vis other EU donors' engagement.

We can move forward quickly if we want to. If EU donors worked on the basis of their own comparative advantage, they could considerably reduce their presence from nine to an average of four sectors per EU donor (i.e. the green and the yellow areas in the

¹ Based on disbursement data, OECD Development Centre Working Paper No. 284 "Crushed Aid: Fragmentation in Sectoral Aid", January 2010

² There were 221 donor missions to Ethiopia in 2007, of which only 22% were coordinated by donors.

³ 2009 OECD Report on Division of Labour – Addressing Fragmentation and Concentration of Aid across Countries

“Hands up if you want to go home”





Brussels, 04 FEB. 2010
D(2010) 53488

Dear Colleagues,

Aid Effectiveness – In-Country Division of Labour: Ethiopia case

As a follow-up to our meeting in September 2009, we will be examining two country cases, Ethiopia and Bolivia, with a view to assessing the state of play in terms of division of labour (DoL), and discussing with our colleagues at country level how to make faster progress on this issue. As lead facilitator under the EU DoL Fast Track Initiative in Ethiopia, the EU delegation together with supporting facilitators UK, Italy and Ireland has prepared a background document explaining the DoL and wider aid effectiveness situation in the field as they see it. That document, along with a proposal for an EU action plan drafted by the Commission, and three information annexes, were sent out last week. Denmark and Spain are the co-lead facilitators for Bolivia, and have provided the information for that case.

I wish to share with you some views on DoL in Ethiopia and the way we can organise our discussion. We all know that we have a clear EU policy regarding division of labour through the EU Code of Conduct on Complementarity and Division of Labour from 2007. Since this Code was agreed upon, Member States and the Commission have consistently and repeatedly called for action to improve division of labour. The Operational Framework on Aid Effectiveness adopted by the Council in November 2009, is but the latest expression of our common goal of achieving real progress on this issue.

With regard to Ethiopia, the EU Delegation and Member States' embassies in Addis have carried out a considerable amount of work in terms of trying to advance the aid effectiveness agenda in general, and the division of labour agenda in particular. I am very impressed by the "donor mapping" carried out by the EU Delegation's aid effectiveness expert, with assistance and input from other donors. Furthermore, the European Commission and Member States have been instrumental in establishing and supporting the Development Assistance Group in Ethiopia, which has functioned as a central dialogue mechanism between donors themselves and between the donor community and the Ethiopian government. At our meeting on the 8th, we should expressly use the opportunity to commend our colleagues at country level for seriously and diligently addressing the policy objectives which have been set out.

Yet, despite this, serious aid fragmentation in Ethiopia persists. Consider these facts, taken from the OECD/DAC statistics covering disbursements for the year 2008:

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How not to achieve a division of labour

Two reasons:
1. Information.
2. Incentives.



Just an example ...

**Division of labour, predictability,
alignment, untied aid, ownership,
rigorous evaluation, transactions costs,
aid allocations, division of labour,
technical assistance, exit**

**Paris indicators are results – not drivers - of change
Change the equilibrium, don't try to move away from it**



The new aid effectiveness agenda

Expired	Tired	Wired
DAC Donors	DAC Outreach	China, Gates, RED, Pepsi
The DAC	WP-EFF	The DCF
The Bretton Woods system	Intelligent Design	Evolution
Go it alone	Harmonise activities	Agree rules of the game
Bilateral aid	Joint funding, SWaPs	Multilateral aid
No evaluation	Process evaluation	Impact evaluation
Structural adjustment	PRSPs	Social accountability
Project aid	Budget support	Cash on Delivery
Money to NGOs	Money to governments	Vouchers
Imported food aid	Locally bought food aid	Cash transfers
DAC database	AidData.org	Real time, raw data
Bureaucrats know best	Governments know best	Citizens know best
Unaccountable agencies	Peer reviews	Crowd-sourcing
Secrecy	Communications	Transparency
DAC guidelines	Rome, Paris, Accra	???

You could ...

- Agree systems & norms, rather than coordinate & harmonise
 - Standard output indicators
 - Standard grantee applications, monitoring, reporting
 - Introduce entry fees per sector (eg \$1m per donor per year)
- Increase transparency and accountability, to provoke change
 - Publish real-time, detailed aid data
 - Publish unit costs, overheads
 - Enforce rigorous, independent, multi-donor impact evaluations
 - Invest in statistical capacity
- New ways of working
 - Pilot Cash on Delivery (replace PBS?)
 - Support social accountability
 - Set more modest objectives e.g. Service delivery