Aid effectiveness
DFID Tanzania May 2009
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These slides are at www.owen.org/musings
What’s the plan?

• Is aid effective?
• Why Paris and Accra?
• Understanding effectiveness
• Gosplan and Google
• Controversial suggestions for DFID
• You tell me I’m talking rubbish
Aid and growth

sub-Saharan Africa - 10 year moving averages 1972-2000

Chart from William Easterly – The Elusive Quest for Growth (2002)
Aid and growth revisited
sub-Saharan Africa - 5 year moving averages 1967-2007

Updated version of Easterly chart using same data sources
Country plot of aid and growth
# How aid might start to do harm

<table>
<thead>
<tr>
<th>Potential problem</th>
<th>Examples</th>
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<tbody>
<tr>
<td>Administration costs</td>
<td>Missions, reports, accounts, targets, audits, reviews</td>
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<tr>
<td>Impact on institutions</td>
<td>Hiring skilled labour, driving up wages, divert attention from reform, undermines budget</td>
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<tr>
<td>Impact on accountability</td>
<td>Weakens social contract, blurs responsibilities, donors acting like opposition</td>
</tr>
<tr>
<td>Proliferation</td>
<td>Conflicting priorities of donors, adds to transactions costs</td>
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<tr>
<td>Wrong choice of activities</td>
<td>Pursuit of broader interests, ignorance of country, need to get money out the door, fetish of sustainability</td>
</tr>
<tr>
<td>Macroeconomic effects</td>
<td>Dutch disease, competitiveness, wages, lack of focus on wealth and job creation</td>
</tr>
</tbody>
</table>
Number of aid projects 1973-2006

Source: PLAID project level aid database June 2008
Average project amounts 1973-2006

Source: PLAID project level aid database June 2008
We will always have Paris

St. Vincent – an island state with a population of 117,000 – was asked to monitor 191 indicators on HIV/AIDS, while Guyana was asked to report on 169 indicators.

There were 15,229 donor missions to 54 countries in 2007 - an average of 282 missions per country per year.

There were 22 medical NGOs working in the health sector in one part of the west coast of Aceh in December 2005 and more than 60 agencies claimed to be working in Aceh’s education sector in December 2005.

Ethiopia had 221 donor missions in 2007.

80% of the 80,000 aid projects under way at any one time are for less than $1m.

Senegal has 82 individual aid coordination forums.

Government of Mozambique has over 1000 bank accounts due to donor requirements.
<table>
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<tr>
<th>Paris Principles</th>
<th>Helps to solve</th>
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<tbody>
<tr>
<td>Ownership.</td>
<td>Impact on accountability</td>
</tr>
<tr>
<td>Developing countries set their own strategies for development, improve their institutions and tackle corruption.</td>
<td>Poor choice of activities</td>
</tr>
<tr>
<td>Alignment.</td>
<td>Impact on accountability</td>
</tr>
<tr>
<td>Donor countries bring their support in line with these objectives and use local systems.</td>
<td>Impact on institutions Administration costs</td>
</tr>
<tr>
<td>Harmonisation.</td>
<td>Administration costs</td>
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<tr>
<td>Donor countries co-ordinate their action, simplify procedures and share information to avoid duplication.</td>
<td>Proliferation</td>
</tr>
<tr>
<td>Managing for results.</td>
<td>Poor choice of activities Macroeconomic effects</td>
</tr>
<tr>
<td>Developing countries and donors focus on producing—and measuring—results</td>
<td></td>
</tr>
<tr>
<td>Mutual accountability.</td>
<td>Impact on accountability</td>
</tr>
<tr>
<td>Donor and developing country partners are accountable for development results.</td>
<td>Poor choice of activities</td>
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</table>
DFID as a whole

• Targets met:
  – Coordinated TA, PFM, procurement, untying, programme based aid, joint mission, analytical work

• Target close to met:
  – Reducing project implementation units

• Not met – challenging
  – Aid on budget
  – Predictability
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A short history of the search for the cure to poverty

- 1940s and 1950s – aid as poverty relief
- 1960s and 1970s – investment and growth
- 1980s – structural adjustment
- 1990s – institutions and policies
- 2000s – conflict, accountability

“we in the development community should not forget that ultimately we exist to work ourselves out of business – and the best way to do that will be to encourage growth and trade.”

Douglas Alexander 2007
Builds capacity and institutions.

Effects are sustained after funding finishes.

Benefits only while funding provided

Likely to erode local capacity and institutions

“ultimately we exist to work ourselves out of business” ?

Direct impact more visible

Indirect impact less visible

Support civil society

Global public goods

Reform trade system

Institutional reform projects and technical assistance

Debt relief

General Budget support

Sector Budget support

Service delivery projects

Global Funds

Humanitarian aid

Imported food aid

Sustainable

Unsustainable

Direct effect

Indirect effect
Gosplan and Google

- Collective action solutions
  - Planning
  - Markets
  - Networks

- Combination of all three needed
  - Use *planning* about the system not the details
  - Use *markets* for delivery
  - Use *networks* to create feedback loop
## Pillars of a new architecture

<table>
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<tr>
<th>Networks</th>
<th>Markets</th>
<th>Planning</th>
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</thead>
<tbody>
<tr>
<td>Transparency of aid information</td>
<td>Unbundling funding from implementation</td>
<td>Information and knowledge sharing standards</td>
</tr>
<tr>
<td>Rigorous, comparable, independent evaluations</td>
<td>Competition in supply of development services</td>
<td>Agreements to sustain competition (eg untying)</td>
</tr>
<tr>
<td>Feedback from beneficiaries</td>
<td>Challenge funds to promote innovation</td>
<td>Taxation of negative externalities (missions, PIUs)</td>
</tr>
<tr>
<td>Social production &amp; online communities</td>
<td>Cash on Delivery Aid (and other forms of output based aid)</td>
<td>Subsidy of public goods (research, civil society, knowledge sharing)</td>
</tr>
<tr>
<td>North South linkages</td>
<td>Evolution not intelligent design of institutions</td>
<td>Aid ombudsman</td>
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Quiz

• What is total aid to Tanzania?
• What are total remittances to Tanzania?
• How many Tanzanian doctors live abroad?
• What should Tanzania argue for in Copenhagen?
• What are the main obstacles to selling organic produce in Europe?
• What are the most effective ways to improve learning outcomes in Tanzania?
Ten ways to make aid better

1. Accept not all aid is sustainable & transformative.
2. Promote transparency and accountability to recipients
3. Do fewer evaluations, and do them right
4. Do less technical assistance, and do it right
5. Employ more local staff
6. Do financial transfers via multilaterals
7. Do more on the demand side of services
8. Do more about UK and OECD policies
9. Build global social protection
10. Link aid better to results e.g. Cash On Delivery
Conclusions

• Aid effectiveness means ... tackling the symptoms and causes of poverty
• Aid works, but ... the benefits decrease as aid goes up
• Paris Declaration helps to reduce the harm aid can do
• Three key DFID priorities predictability, transparency, accountability
• Work on DFID’s comparative advantages Less on transfers, more on rich country policy