

How Much Does Aid Effectiveness Improve Development Outcomes?

Lessons from Recent Practice

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There is broad consensus that aid could be managed better, and the Paris Declaration and Accra Agenda for Action have changed accepted behaviour in the provision and use of aid. But, as we approach the 'due-date' for the Paris Commitments, what can we say about the impact of aid effectiveness on development?

This note assesses the extent to which we can draw conclusions at this stage, noting the challenges posed by slow progress in implementing the Paris Commitments, and the long lead-time before many of these can be expected to translate into development outcomes. Five years after the Paris Declaration was endorsed, the rationale underlying the Aid Effectiveness agreements is supported by evidence from a variety of sources that better aid quality leads to better development outcomes. But we need better and more detailed evidence to support effective decision-making in Busan – including evidence which pinpoints those behaviours which are most important for aid to lead to development.

The measurement of results is also an aid-effectiveness issue, and, as aid comes increasingly under scrutiny for impact and value-for-money, Busan should consider how to improve measurement in as effective a way as possible.



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Aid effectiveness is about delivering aid in a way that maximises its impact on development and achieves value for aid money.

There is broad consensus that aid should be managed better to achieve greater development impact. This underpins the agreements in the Paris Declaration (2005) and Accra Agenda for Action (2008). These aid effectiveness agreements, sponsored by the OECD/DAC and engaging the whole spectrum of development stakeholders, are the only international framework on the quality of aid – the essential counterpart to the commitments in the MDGs and UN/G8-led commitments on development finance.

Behaviour has changed since 2005. The agreements are still recent, but already there is progress in meeting the Paris targets, and the agreements have changed aid practice for the better (Annex 1). It is now the norm that aid recipients discuss their national development strategies with their parliaments and electorates (ownership); donors support these strategies (alignment) and work to streamline their efforts in-country (harmonisation); development policies are directed to clear goals and progress is monitored (managing for development results); and donors and recipients are jointly responsible for achieving these goals (mutual accountability).

More and better information is available. The Paris Declaration's call for transparency has sparked significant improvements in the availability and quality of data – including through the Paris monitoring surveys (covering almost all donors and, in 2011, some 80 developing countries) as well as new initiatives such as the health metrics network, OECD/DAC work on country programmable aid (predictable aid) and the International Aid Transparency Initiative (IATI). This data in turn supports accountability and value-for money: electorates in donor and developing countries have the information they need to hold their executives to account and executives have information to identify and exploit potential cost savings.

The principles have a broad reach. The Paris and Accra commitments have also spurred agreements to improve the quality of aid provided to countries in fragile situations (Dili Declaration, April 2010), as well as development assistance by developing and middle income countries (Bogotá statement, March 2010) and by CSOs and NGOs (Istanbul principles September 2010).

HLF-4 will decide whether and how to measure aid effectiveness in future. The 'due date' for the Paris Declaration is 2010, and the fourth High Level Forum on aid effectiveness – to be held in Busan from 29 November to 1 December 2011 – will assess how the aid effectiveness principles have affected development. HLF-4 will take stock of how aid delivery has changed since 2005, but also – and crucially – whether this has led to better development outcomes. On the basis of this, HLF-4 is expected to make

recommendations on a future aid quality framework, at least for the period up to the MDG date of 2015.

But do we know enough about the impact of aid effectiveness on development? Discussions at HLF-4 and any decisions on an aid quality framework in the future must be informed by evidence. But, only 5 years after the Paris principles were agreed in 2005 – and with the targets far from being universally achieved – finding clear, long-term evidence of a causal link between the Paris principles and development outcomes is challenging. It is worth reminding ourselves that the Paris Declaration set out only to change behaviour by 2010 – it is reasonable to assume that the impact of, say, donors providing partner countries with 3-5 year forward spending plans would take far longer to show up in countries' medium-term objectives let alone be translated into development outcomes. In this context, policy-makers participating in HLF-4 must draw on as broad a range of evidence as possible to inform their decisions; including the rationale behind the Paris Declaration, anecdotal evidence, as well as findings from ex-post evaluations of impact extending beyond the Paris Declaration timeframe.

The theoretical link between aid effectiveness and development outcomes is strong. The rationale for Aid Effectiveness stresses its importance for Development Effectiveness and impact:

- Ownership by developing countries will create buy-in and sustainability.
- Donors aligning to country priorities will help strengthen their systems and strengthen ownership.
- Harmonised approaches to aid will reduce transaction costs.
- Managing for development results will ensure more targeted interventions.
- Mutual accountability will increase the legitimacy of the state in the eyes of its citizens and reduce accountability distortions created by more traditional aid delivery mechanisms.

These assertions are backed up by lessons of best practice in economic governance. For example, integrating aid into countries' budgets, rather than using parallel systems or organisations, is crucial for the emergence of sustainable local capacity to manage all public expenditure and the engagement of parliaments and citizens in demanding accountable government. Likewise, transparency supports effective decision-making at all levels. And predictability of aid is essential to enable finance ministers to commit to development programmes that entail long-term financial implications – such as expanding the teaching or health workforce for example.

Quantitative estimates of the benefits of aid effectiveness show clear gains. More effective aid increases the value of aid and therefore its potential for impact. It is estimated that the value of aid programmes is reduced by 30% when aid is tied (OECD, 2006) and by 10-20% when aid is unpredictable (Kharas, 2008). Estimated losses due to fragmentation – equivalent to a \$5bn reduction in value – are also significant. The Joint Evaluation of General Budget Support 1994-2004 found that using partner governments' systems significantly reduced their transaction costs at implementation stage by enabling them to follow standard government procedures rather than a multiplicity of donor ones (IDD, 2006). The European Commission has attempted to quantify the transaction costs for donors as well. It estimates that the cost to the European Commission's aid programme of failing to implement the full aid effectiveness agenda ranges from EUR 5 to EUR 7 billion a year (European Commission, 2009).

There is a good deal of anecdotal evidence to illustrate why aid effectiveness matters for development: The following examples show how lack of harmonisation and alignment by donors strongly reduces government capacity and hinders development outcomes:

- In Morogoro district in Tanzania, district health officials spent 25 working days each quarter writing reports for donors instead of delivering services (McKinsey study, 2004).
- The 2008 Paris Monitoring Survey found that Vietnam had received 752 missions from donors during the previous year, often distracting government officials from implementing development-related programmes and putting pressure on already weak capacity.
- Following the Mozambique floods of 2000, reconstruction programmes funded through Mozambique's own budget were able to rebuild schools quickly whereas those funded through parallel systems got stuck in donor red-tape and other delays.

HLF-4 will also draw on rigorous independent analysis of the impact of the Paris Declaration. By the time of Busan, the findings of both the final monitoring survey of the Paris Declaration commitments and the second phase of the Evaluation of the Paris Declaration will be available. Together, these findings will provide evidence of how far the Paris targets have been achieved – globally and at country level – and whether this has led to an improvement in development outcomes. Phase one of the evaluation, which found that the Paris principles were being implemented, but slowly and inconsistently, concluded that they had the most impact on development where they were recognised as a political as well as a technical agenda – and where they were used as an organising framework for a country's overall development

strategy and not just for aid. Capacity and confidence in national systems emerged as key factors determining whether the Paris commitments had been implemented. Phase two will draw on the findings of 21 country-level evaluations and 7 donor HQ studies to provide a fuller picture of how and where the Paris commitments have been implemented, and how this is contributing to development outcomes.

But at this stage, evidence from full ex-post evaluation is thin on the ground. This is not surprising, as many of the changes triggered by the Paris Declaration will take several years to show up in development outcomes. But lack of evidence also reflects slow progress in implementing the commitments. Decision makers at Busan will therefore need to draw on a broader range of analyses, including through interrogation of existing evaluations and development experiences to see how the aid effectiveness principles have played a role in supporting development over the past decades.

Sector and thematic evaluations offer a good source of evidence. For example, World Bank analysis of the water sector in Ethiopia has found that the way rural water supply programmes were financed affected their impacts: schemes financed through parallel procedures and/or by undermining local accounting and procurement resulted in the lowest utilisation rates. Likewise, evidence from the response to the Asian Tsunami of 2004 found that aid channelled through local systems in Aceh enabled reconstruction efforts to start earlier and with consequent greater impact on development outcomes than for aid channelled through parallel systems – and with no increase in misuse of funds over parallel methods.

Health has been studied in detail from the point of view of aid effectiveness. Findings here – ranging from early work on Sector-Wide Approaches (SWAPs) in the 1990s to the findings of the High Level Forum on the Health MDGs and WP-EFF's task team on Health as a Tracer Sector – have underlined the importance of the Paris principles for delivering development outcomes. Ownership (particularly in the form of strong health sector plans linked to the budget and medium term expenditure framework); alignment (especially through support for countries' health systems) and predictable long-term finance in particular have emerged as key factors in supporting better health. Two examples from evaluations in Tanzania show how effective support to country led-strategies and capacity development reduces child mortality.

- Child mortality rates in two large rural districts of Tanzania have fallen by more than 40 per cent over five years following a unique 10-year project carried out by a team of Canadian and Tanzanian researchers and health workers. The Tanzania Essential Health Interventions Project (TEHIP) provided health planning teams in the districts of Morogoro and Rufiji with the

tools, strategies, and funding increases of US \$1 per person per year to improve on-the-ground health care delivery. The key was focusing not on how much was spent on health care, but on how it was spent. By ensuring that limited resources were spent on the diseases that caused the greatest harm, that the right medicines were available at the right time, and that health personnel were trained to treat patients effectively, the project has proven that a country-led integrated approach to managing a health system is key to improving community health.

- The Health Metrics Network (a donor institution hosted by WHO) invested in some of the poorest districts, to support planning, management and strengthening of health information systems with community involvement. This aid for effective country health systems has contributed to a 50% reduction in child deaths between 1997 and 2006.

Evaluation evidence underlines the importance of using country systems. Donor use of partner country's established institutions and systems helps to strengthen the partner's long-term capacity to develop, implement and account for its own policies – both to its legislature and to its citizens. Evaluations of donor support to public sector reforms confirm that channeling aid through country systems strengthens budget processes and improves the country's own administrative and financial systems (Independent Evaluation Group, 2008). The joint evaluation of general budget support (IDD 2006) showed that channeling funds through the budget played a significant role in making government agencies take the budget process more seriously. Previously, donor money was “invisible” to those making decisions in ministries responsible for the budget.

Retrospective analyses of counties' development histories also show links between aid effectiveness and development impact. The recent work conducted by the Brookings Institution as part of the 'Catalysing Development' project has assessed the experience of Korea, Viet Nam, Indonesia and Cambodia. This analysis finds strong links between the Paris principles and development outcomes. The findings show that ownership, alignment, predictability, and capacity development are key to development outcomes. In particular, countries must show strong leadership over their

development programmes and be able to count on long-term support from their major partners. A well-thought out exit strategy from aid also emerges as an important feature for successful development.

More analysis of this type is needed to inform the discussions at Busan: The WP-EFF secretariat is currently working with its members to collect more case studies from around the world. The 'Progress from Paris' report, which will be the main input to the conference, will draw on evidence from as broad a range of sources as possible. The aim is to provide evidence of which aspects of the Paris principles matter most for development to inform discussions on an aid quality framework post-Busan.

And more progress is needed on measurement of development results more generally. This challenge is not unique to aid effectiveness - assessing the impact of aid is difficult in all circumstances. Despite methodological improvements, it remains difficult to pinpoint the causal relationship between the aid provided and the output achieved. But, especially at a time of financial pressure on aid budgets when the impact of aid is increasingly questioned, we must be able to better demonstrate that aid works.

But care is needed – results measurement must also be in line with the Paris principles. Donor driven efforts to assess and measure impact can be counterproductive. The resulting accountability pressure on developing countries to donors can detract from the accountability of those countries to their own citizens. The existing fragmentation in funding and parallel reporting systems mean that developing countries' own systems are underused and sometimes undermined. This often leads to having multiple sets of information for each country on how aid has contributed to development and information on results not held by the countries themselves who need to know what works and why so that they can plan effectively for the future. There is also a danger that too narrow a focus on what aid has 'bought' encourages donors to finance things that can easily be measured.

HLF-4 should both assess the evidence we have, and look at how to ensure that good quality evidence – collected in a way that supports rather than undermines local capacities – is available in future.

