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International Coordination and the Effectiveness of Aid[☆]

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Summary. — This paper seeks to quantify the effects of improved donor coordination on aid effectiveness. Empirical estimates are first provided of the reductions in transaction costs that can be achieved by better donor coordination via concentration to fewer partner countries and a shift from project aid to program-based approaches. Further estimates are presented showing how much could be gained in terms of poverty reduction by optimizing aid allocation across countries. The potential poverty reduction would be huge, but there are severe political implementation constraints. The paper concludes that much could be gained in terms of aid effectiveness from improved donor coordination.

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1. INTRODUCTION

During the 1980s and 1990s there was an intensive debate about the reasons for the poor development in particular in Sub-Saharan Africa, and foreign aid came under increasing critique. This generated an abundance of research on the effectiveness of foreign aid. Drawing on this literature, donors organized a series of conferences to discuss how to improve aid practices and make aid more efficient.¹ In the Paris Declaration from 2005 they summarized their conclusions about how a good aid relationship should be structured. This was then extended in the Accra Agenda for Action of 2008 and in the Busan Declaration of 2011. We refer to the entire set of aid effectiveness declarations by donors as the Paris Agenda. Donor coordination is a key feature of this agenda, and this paper discusses and quantifies the implications of two different types of donor coordination for aid effectiveness. We first provide estimates of the reductions in donor transaction costs that can be achieved by better donor coordination via concentration to fewer partner countries and a shift from project aid to program-based approaches. We further present estimates of how much could be gained in terms of poverty reduction if donors jointly optimize aid allocation across countries. Our paper thus focuses on the behavior of donors and its implication for aid effectiveness. The contribution of the paper to the literature on aid effectiveness is that it provides empirical estimates of the magnitudes of the effects of improved donor coordination.

The rest of the paper is structured as follows: In Section 2 we discuss four main features of the Paris Agenda and how they relate to our analysis. In Section 3 we identify the types of aid which are relevant for our analysis. Section 4 presents our empirical analysis. Section 5 discusses the implications of our results for the four identified dimensions of the Paris agenda and the political economy of the implementation of our recommendations.

2. WHAT IS THE PARIS AGENDA?

The Paris Declaration of 2005 outlined a strategy to make aid more efficient through the rationalization of donor behavior. This would be achieved by measures to increase recipient country ownership, to improve donor harmonization and

alignment with recipient policies, to manage aid according to results, and to enhance mutual accountability. At a subsequent high-level meeting in Accra in 2008 donors elaborated on these themes in the Accra Agenda for Action. This added that one should seek to improve the predictability of aid flows and reduce conditionalities.

In 2011 there was another high-level meeting in Busan, where participants agreed on the “[Busan Partnership for Effective Development Cooperation](#).” This document is an attempt to adjust the aid architecture to the new realities with a more diverse body of donors. Four shared general principles are listed in the Busan Declaration:

- (i) *Ownership of development priorities by developing countries:* The concept of *ownership* is thus still a central feature of the aid agenda, and it is one of the four key dimensions that are focused in this paper.
- (ii) *Focus on results:* This principle is the same as before and emphasizes that learning from experience is important. Under this heading one also emphasizes the importance of *alignment* of aid inflows with recipient priorities and policies, which is the second key dimension we focus on in this paper.
- (iii) *Inclusive development partnerships:* In the discussion on aid modalities the need to reduce fragmentation is underlined. The desire to be inclusive and open up for the new players has meant that there is less emphasis on harmonization than in previous declarations.

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This means that a discussion of the future of *harmonization* is more complex, but it is no less important. It is the third key dimension that we focus on in this paper.

- (iv) *Transparency and accountability*: There is an even stronger focus in the Busan Declaration than in the earlier ones on the issues of transparency and accountability. If recipient governments cannot account for the resources that have been transferred to them, donors will not be willing to continue transferring resources. Or they will at least be less willing to transfer resources in general forms, which could enhance ownership. Therefore *transparency* is our fourth key dimension.

The most interesting attempt to measure donor quality in recent years is the study by [Birdsall and Kharas \(2010\)](#), who benchmark countries and agencies against each other. The set of dimensions we have chosen to focus on are well in line with those identified in their study of donor quality. Thus, we will discuss the following four key dimensions of the Paris Agenda, namely (i) harmonization, (ii) ownership, (iii) alignment, and (iv) transparency. We start with general observations about the four aspects, and in the final section we discuss them in relation to our evidence about the role of coordination for aid effectiveness.

(a) *Harmonization*

First, it seems obvious that harmonization should have a cost reducing effect. Aid coordination allows donor to economize on their own transaction costs, and at the same time it reduces the amount of resources that recipients need to spend in the aid delivery process. Still, these cost saving effects are not always self-evident. [Odén and L. Wohlgemuth \(2011, p. 7\)](#) report that for recipients such as Zambia, Kenya and Tanzania, the developed dialog structure has become complex, overburdening the recipient administration. They also warn of a tendency among donors to want to micromanage programs in the numerous consultation bodies, which have been set up to coordinate aid interventions. Second, there are the incentive effects of donor coordination. The results of the literature suggest that the effectiveness of coordination would depend on the congruence of the goals of donors and recipients ([Knack & Rahman, 2007](#); [Torsvik, 2005](#)).

The literature has further discussed the mechanisms by which harmonization could reduce the risk of elite capture ([Azam & Laffont, 2003](#); [Bourguignon & Platteau, 2011](#); [Gaspard & Platteau, 2011](#); [Svensson, 2000, 2003](#)). This could be achieved if donors, by reducing the number of players in a country, can limit the exit options available to the local counterparts. If donors jointly introduce a mechanism to inform each other about fraudulent acts committed by intermediaries, elite capture could be contained ([Platteau, 2000](#)).

For example, [Easterly \(2006\)](#) points out that in a situation where there are many donors involved, it is hard to decide who is accountable for inefficiencies or corruption. It makes it hard to allocate responsibility, which means that it is harder to introduce corrective action.

One may also note that there are donors, which do not want to harmonize (e.g., the US and the new donors such as China, India, and Brazil) as well as the new vertical or global funds, which run their projects outside the government budget system. So it is not clear that there is a trend toward increasing harmonization.

The huge donor evaluation of the implementation of the Paris Declaration by [Wood et al. \(2011, p. xiv\)](#) concludes that the results have been somewhat disappointing in relation to the goal of rapidly reduced burdens in managing aid. Still, they find that practices have been put in place, which at least allow a better

overview of aid by both donors and recipients. The report is concerned by the fact that that donors are slow to change and generally very risk averse, while partner countries have increasingly taken on the agenda. Still, harmonization is regarded as the most successfully implemented part of the Paris Agenda.

(b) *Ownership*

It is important for recipient incentives that the government can formulate its policy according to its own priorities. How this is affected by donor coordination is not self-evident, but it may well be that the recipient has a stronger incentive to formulate its position well vis-à-vis a large cohesive group of donors than against a group with many different requests. It is hard to measure how changes in conditionality affect aid effectiveness, but it seems reasonable to assume that aid coordination can allow for a more effective implementation of conditionalities.

There is a presumption in the literature that more general forms of aid make it possible for recipients to have better ownership of the policy process. By reducing the reporting burden and simplifying coordination of activities, it should be effectiveness enhancing. However, [Odén and Wohlgemuth \(2011\)](#) voice the concern that the increased use of budget support has meant that the dialog has become more political in nature, which may imply a reduction in ownership. So it is not automatic that a general form of aid leads to improved ownership.

[Odén and Wohlgemuth](#) draw the conclusion from their review that there is weak willingness and capacity of the host governments in Africa to take up their leadership role in the Paris Agenda process, while at the same time there is a reduced willingness by many donors (“Paris fatigue”) to accept delays due to increased ownership. The progress on this dimension is unclear ([Wood et al., 2011](#)).

(c) *Alignment*

There is a broad consensus that development depends fundamentally on the quality of policies and institutions ([Hall & Jones, 1999](#); [Kaufmann, Kraay, & Zoido-Lobaton, 1999](#); [Rodrik, Subramanian, & Trebbi, 2004](#)). [Besley and Persson \(2010\)](#) point to “state capacity” as the key determinant of whether a country can achieve development. Aid is often allocated to improve the quality of public institutions, but how should interventions be designed to help build effective institutions rather than undercut incentives for good public governance? It seems clear that aid affects growth via governance variables, and how governance is affected depends on how aid is channeled. Projects require a lot of detailed decisions and steering, which is a burden on the administrative systems. More general forms of aid would make it possible to leave more of the decision-making in the hands of the recipient, i.e., increase ownership. It should be noted, though, that it may be easier to control elite capture on the project level, but it is hard to come up with empirical estimates of this.

It is likely that aid to government will have a more sustainable impact if it is integrated within the regular government system, even if it may increase the risk of misappropriation. Therefore, even if an individual project may work better within parallel structures, one must factor in what the consequences are for the long-run functionality of the whole system of government.

(d) *Transparency*

The final issue we consider is how aid coordination affects transparency in the recipient countries. It may well be that

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