

# Rhetoric *versus* Reality: The Best and Worst of Aid Agency Practices

WILLIAM EASTERLY and CLAUDIA R. WILLIAMSON\*

New York University, USA

**Summary.** — Foreign aid critics, supporters, recipients, and donors have produced eloquent rhetoric on the need for better aid practices—has this translated into reality? This paper attempts to monitor the best and worst of aid practices among bilateral, multilateral, and UN agencies. We create aid practice measures based on aid transparency, specialization, selectivity, ineffective aid channels, and overhead costs. We rate donor agencies from best to worst on aid practices. We find that the UK does well among bilateral agencies, the US is below average, and Scandinavian donors do surprisingly poorly. The biggest difference is between the UN agencies, who mostly rank in the bottom half of donors, and everyone else. Average performance of all agencies on transparency, fragmentation, and selectivity is still very poor. The paper also assesses trends in best practices over time—we find modest improvement in transparency and more in moving away from ineffective channels. However, we find no evidence of improvements (and partial evidence of worsening) in specialization, fragmentation, and selectivity, despite escalating rhetoric to the contrary.

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**Key words** — foreign aid, best practices, transparency, bureaucracy, incentives

## 1. INTRODUCTION

“We, Ministers of developed and developing countries responsible for promoting development and Heads of multilateral and bilateral development institutions... resolve to take far-reaching and monitorable actions to reform the ways we deliver and manage aid... we recognize that while the volumes of aid and other development resources must increase to achieve these goals, aid effectiveness must increase significantly as well to support partner country efforts to strengthen governance and improve development performance.”

Paris Declaration on Aid Effectiveness (2005, p. 1)

Despite the transfer of over \$4.6 trillion (measured in constant 2007 dollars) in gross official development assistance (ODA) to developing countries from 1960 through 2008, a substantial amount of the world remains in extreme poverty and stagnant growth<sup>1</sup> (Bauer, 2000; Easterly, 2001, 2006; Moyo, 2009).<sup>2</sup> The aid community now emphasizes improved quality of the delivery and allocation of official aid as a necessary means to achieve positive outcomes (for example, see the [Paris Declaration on Aid Effectiveness, 2005], which was followed up by the [Accra Agenda for Action, 2008]).

Unfortunately, there is no disaggregated data available on the impact of aid on the beneficiaries, which would be the most desirable measure of quality of aid. Like others in this literature, we follow a more indirect approach. We focus on five dimensions of agency “best practices” derived from what practices the donors themselves, outside aid monitors, and the academic literature suggest agencies should follow. We use the Paris and Accra process as another reference point among many on what the consensus on best practices is. However, as explained below, we choose not to directly monitor compliance with Paris and Accra agreements, as these agreements are a negotiated political process rather than an academic monitoring exercise.

The five best practice dimensions are based on Easterly and Pfutze’s (2008) best practices, which are agency transparency, minimal overhead costs, fragmentation of aid, delivery to more effective channels, and allocation to less corrupt, more democratically free, poor countries. Transparency is based on the ability to gather information such as employment numbers, budgetary data, and overhead costs. Specialization captures the extent to which aid is divided among many donors,

many countries, and many sectors. Selectivity refers to aid delivery to the poorest countries while avoiding corrupt dictators. Ineffective channels measure the share of aid that is tied, given as food aid or as technical assistance. Overhead cost utilizes the data collected during the transparency stage and refers to an agencies costs relative to aid disbursements. These concepts reflect standards identified over a number of years of research on the need to reform the allocation and management of foreign aid (Accra Agenda, 2008; Birdsall, Kharas, Mahgoub, & Perakis, 2010; Center for Global Development, 2007; Commission for Africa, 2005; Easterly, 2007; Easterly & Pfutze, 2008; IMF, 2005, 2006; Knack & Rahman, 2007; Knack, Rogers, & Eubank, 2010; Paris Declaration, 2005; Rome Declaration, 2003; Roodman, 2006, 2009; United Nations Millennium Project, 2005; United Nations Development Program, 2005). We will provide more detailed justification and references in the section on each concept below.

We acknowledge that there is no direct evidence that our indirect measures necessarily map into improved impact of aid on the intended beneficiaries. We will also point out specific occasions where the relationship between our measures and desirable outcomes could be nonmonotonic or ambiguous. We primarily emphasize outliers that are less ambiguous. We focus on best practice as one constructive input into the aid system as a whole working well. So for example, we think aid is unlikely to be a healthy system if donors refuse to disclose information on their activities, if even the smallest aid agencies fragment their assistance into dozens of different country and sector programs, if most aid money is given to corrupt dictators, if most of aid is tied to purchases of goods or consultants from the donor, and if overhead costs take up much of aid disbursements.

This focus addresses two general questions in the wider aid debate: (1) do agencies perform the way *they* say they should and (2) are agencies moving toward (1) over time? The analysis attempts to sort out agency rhetoric from reality by contrasting what agencies are saying with what they are actually doing. We do so by monitoring individual bilateral and multilateral

\* We thank Polina Minkovski and Nobuyuki Kanazawa for valuable research assistance.

aid agencies, including the UN agencies, compared to the best practices outlined above. From these measures, we remark on the improvement, or lack thereof, of agency practices among individual donors over the past five years and for the international aid effort as a whole dating back to 1960 (when possible). We simply take the best practice measures as stated from the aid community and the aid literature as given and focus the analysis on ranking individual aid agencies compared to these practices.

The paper has several main results. As emphasized in previous aid studies, “the data on aid agency spending are inexcusably poor” (Easterly & Pfutze, 2008, p. 3). Unfortunately, the current state of aid data remains appallingly inconsistent making it difficult to compare best practices across donors and overtime. This finding makes the recent attempt by AidData to collect consistent and comprehensive data on development finance all the more valuable (Tierney *et al.*, 2011).<sup>3</sup> Most of our data on donor allocation of aid is taken from the OECD Development Assistance Committee (DAC) but reporting is voluntary and a number of agencies do not participate. In addition, less than half of the agencies directly contacted for this study actually responded. This general finding lends support to the conclusion that agencies are not nearly as transparent as they need to be, making consistent and accurate monitoring all the more difficult. When possible, we compare changes in donor transparency and do find a slight trend toward an increase in agency transparency.

The data that is available suggest that the overall international aid community continues to suffer from many of the problems previously identified. Aid is fragmented among many donors, large and small, and donors do not specialize, splintering aid allocation among many countries and many sectors. Donors continue to allocate aid to corrupt and unfree countries, even taking into account the worthy aim of directing aid to poor countries. In short, aid community criticizes these practices but continues them anyway.

Based on these measures of best practices, we create an overall aid agency ranking. Who are the best and worst performers on aid practices? The Global Fund is the best multilateral and the United Kingdom is the best among the bilateral agencies, ranking second overall. Greece ranks last overall.

We look for patterns relative to well known priors among aid observers—do the Scandinavian countries deserve their good reputation among bilaterals? Does the different governance structure of the UN agencies (such as more diluted governance based on equal voting rights in the General Assembly) result in differential performance relative to other multilaterals? (The answers turn out to be (1) no, and (2) yes.) We will also pay special attention to the US as a donor, because the politics of aid in the US are fairly well known.

The paper also assesses trends in best practices over time, updating the work of Easterly (2007) where data permits. Our results are that there has been substantial improvement in discontinuing ineffective channels of aid delivery, and a little improvement in transparency. However, aid fragmentation and selectivity favoring noncorrupt democratic donors continue to show no improvement over very poor performance, despite the escalation of rhetoric and Paris Declaration (2005) commitments (frequently reiterated every year, such as Accra (2008)).

## 2. LITERATURE REVIEW

There has been a welcome surge in the literature on monitoring, evaluating, and rating aid agencies' performance.

Before explaining how our study adds value relative to other studies, we first note that this literature is still at an early stage and is still undersupplying the public good of independent commentary on aid agencies' performance. As pointed out by many authors, aid agencies lack the normal feedback loops available to democratic or market actors, who can observe dissatisfaction of voters or customers. Aid beneficiaries have no vote and no purchase decisions by which they could communicate dissatisfaction to aid agencies. This makes a variety of independent academic checks on aid agencies useful to fill the void. So we first welcome the recent collection of recent papers using apparently similar methods to achieve apparently similar objectives, yet still offering important differences in both methods and objectives to this paper.

We organize our discussion of the literature and our paper's marginal contribution around several important issues. The first issue is how closely to track the aid donors' Paris Declaration (2005) and Accra Agenda (2008) process on improving aid effectiveness. Knack *et al.* (2010) closely follow the content and main indicators outlined in the Paris Declaration when selecting which components to include in the analysis. A second study by Birdsall, Kharas, Mahgoub, and Perakis (2010) parallels Knack, Rogers, and Eubank (2010) also using the Paris Monitoring Indicators to motivate their dimensions of focus. These studies are very useful to answer the question if donors are keeping their commitments under the Paris Declaration, the current major international effort for reform in aid practices. Nonetheless, our paper chooses not to follow the Paris Declaration so closely. While the Paris Declaration itself is important evidence on the donor consensus on best practices (to which we also appeal like other studies), the Declaration also introduced its own methods and indicators for monitoring these practices. Since the Paris Declaration process itself is an institutional and political process and not an academic exercise, we believe it is also valuable for us to provide an aid monitoring exercise based on our own choices on the best methods for monitoring on academic grounds alone.

A second related issue is how broad to make the monitoring exercise, or in other words, how broad to make the concept being monitored. Most of the other papers in this literature choose broader concepts than we do. Birdsall, Kharas, and Mahgoub (2010) and Knack *et al.* (2010) use Aid Quality as their desired concept, while the high profile exercise described in Roodman (2006, 2009) uses Commitment to Development. There is a tradeoff between a broader concept that provides a more comprehensive picture, on one hand, and the lack of clarity of the precise definition or measurement of a broad concept, on the other. We choose to focus on the more precise and measurable concept of Aid Best Practices.

A third issue is whether to monitor donors' absolute or conditional performance. A priori, conditional performance measures have a strong appeal as controlling for factors beyond the donors' control. This is usually done with regression methods controlling for such factors. For example, Dollar and Levin (2006) rank agencies based on a policy selectivity index that captures whether donors consider a recipient country's institutional and policy environment before allocating aid, controlling for policies and population. The most ambitious and persuasive effort along these lines is Knack *et al.* (2010), which controls for factors like an agency's geographic range when monitoring their behavior.

These studies provide valuable information, but we believe that measuring absolute performance (as our paper will do) is also important and insightful. Once the Pandora's box of conditioning factors is opened, it is very hard to decide where

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