

## **Linking Aid Effectiveness to Development Outcomes: A Priority for Busan**

*Tony Addison and Lucy Scott*

UNU-WIDER Helsinki  
November 2011

The forthcoming fourth High-Level Forum (HLF4) on aid effectiveness, to be held in Busan, South Korea, follows those in Rome (2003), Paris (2005), and Accra (2008), which aimed to transform relationships between traditional DAC aid donors and recipient governments, paving the way for the future of development co-operation. The deadline for the Paris Declaration and the Accra Agenda for Action commitments was 2010. The Busan forum then, comes at an important time for the international aid effectiveness agenda, providing the opportunity for it to take stock of what the process has achieved so far as well as to decide upon its future direction.

This ReCom brief draws on on-going conversations and debates about the aid effectiveness agenda. It outlines progress on aid effectiveness so far, before identifying areas where it needs help in moving forwards, particularly in terms of identifying the obstacles to effective aid—aid which achieves development outcomes.

### **The aid effectiveness agenda so far**

The Millennium Development Goals (MDGs), agreed upon in the Millennium Declaration in 2000, provide a coherent set of objectives for DAC donors to achieve. Donors committed to them, and allocated more aid. However, initial increases in the amount of aid delivered did not lead to the anticipated development impacts. The aid effectiveness agenda brought to centre stage that it is not just how much aid that is spent, but it is also how aid is delivered that enables it to be successful, or not, in achieving its aims. The Paris Declaration identified ownership, alignment, harmonization, results and mutual accountability as the key principles for effective aid. It set 13 targets to be achieved by the end of 2010. The results of the recent monitoring survey though show that only *one* of these has been met. There is, in summary, a large gap between aspirations and results.

A major reason for the slow pace of change is that DAC donors have different objectives when allocating and delivering aid, pursuing multiple objectives, not aiming just to reduce poverty. The Paris Declaration puts forwards a bureaucratic solution to what is largely a political problem, for it is politics and their associated incentives which determine aid allocations and modalities. Acknowledging this, the next question is whether the consensus around the principles of the Paris Declaration has to some sense reached its natural limit.

Despite the limited achievement of Paris Declaration targets, the DAC points to promising trends in some of the remaining twelve targets. For instance, the proportion of developing countries with ‘sound’ national development strategies in place has more than tripled since 2005. However, where advances have been significant the report on ‘Progress in Implementing the Paris Declaration’ notes that this has been for those indicators where responsibility for change lies primarily with developing country governments, rather than donors. Overall the view is that while progress has been slow, the Paris Declaration has

brought an improved approach of greater accountability and learning within the aid system. Development effectiveness does matter to achieving the objectives of development co-operation, the MDGs, while any radical change to the current aid effectiveness system at Busan would risk losing many of the gains made so far.

### **Moving the aid effectiveness agenda forwards to achieve the MDGs**

Building on the Paris Declaration, a ‘hold firm and do better’ option would ensure further time for changes in the aid system to take place and also ensure continuity to the effectiveness agenda.<sup>1</sup> It would acknowledge that the principles behind the Paris Declaration are tried and tested; the result of learning from many years of development aid by DAC donors. However, merely extending the targets of the Paris Declaration to 2015, the current deadline for the MDGs, would be a wasted opportunity and would not respond to the criticisms of the current agenda. In particular, one overriding limitation is that the Paris commitments have failed to link discussions about aid effectiveness to concrete development outcomes, particularly attainment of the MDGs.

As the DAC Chair agrees, Busan represents the best opportunity for the international development community to revitalise its commitment to achieving the MDGs before their 2015 target date. The draft outcome document notes that ‘the urgency of achieving strong, equitable and sustainable growth and decent work in developing countries is critical’. However, to do this a focus on the principles and processes of aid effectiveness needs to be complemented by further considerations of the substance of what needs to be done in order to achieve development outcomes. The principles behind the Paris Declaration are undeniably important in improving the ability of aid to be effective in terms of promoting national development and reducing poverty. However, development co-operation is ultimately a means to a set of ends. One of those is to end aid—to be achieved when the MDGs and other development goals are reached. Commentators point to some donor agency staff being so concerned of adhering to the principles of the Paris Declaration, for instance on alignment to country programmes, that important issues for effective aid such as quality or addressing a severe risk of corruption only get limited attention.<sup>2</sup>

Ensuring a clearer link between the aid effectiveness agenda and achievement of the MDGs involves:

- *More honesty about limitations of the ‘ownership’ principle.* The Paris Declaration arose from an acknowledgement about the importance of national ownership over aid interventions to ensure their success. In other words, that the effectiveness of aid depends on whether or not a country’s leadership is truly committed to development. Discussions since, however, have started with an implicit assumption that most countries have a development-oriented leadership. But this is unfortunately not always the case. While ownership may be a desired outcome of aid, it cannot be a starting point for development efforts. The question then becomes if, and how, aid can assist the emergence of developmental country leaderships.<sup>3</sup>

---

<sup>1</sup> This is a point made by Alison Evans of ODI (see, Evans 2011).

<sup>2</sup> See Isenam and Shakow in Evans (2010).

<sup>3</sup> See Booth (2011).

- *Greater flexibility and scope to incorporate different country contexts.* There is increasing mention in the aid effectiveness community of ‘common but differentiated’ responses—in particular, to differentiate between low-income countries, middle-income countries, fragile states, and small-island states. So far the focus of debates has been at the global level, on overall arguments about whether, or not, aid is effective. This though, has not helped donors to devise specific strategies for different contexts. Not all fragile states, for instance, are likely to have the capacity or will to lead engagement with aid donors limiting use of the principles of ‘ownership’ and ‘alignment’ in governing engagement there. Achieving the Paris targets in these contexts is not just more difficult, but may not even constitute good donor practice.
- *Emphasising the institutions and incentives which can reduce fiduciary risks and enable effective public expenditure.* Donors are concerned about aligning their interventions to partner country’s institutions and systems, particularly where they are weak or lack credibility, because of the large fiscal risks which they face. Weaknesses in government are a major factor in decisions by donors to use parallel mechanisms that side-step country systems. Evidence shows, though, that the use of national and local institutions is critical both for effective use of aid and sustained development outcomes. Alignment meanwhile, is largely about the ability of donors to manage these risks.<sup>4</sup> However, the aid effectiveness agenda offers little practical guidance on how to manage risks. Because of this donors are instead highly risk averse. As the evaluation of the implementation of the Paris Declaration notes though, ‘to avoid all risks in development co-operation is to risk irrelevance’.
- *Focusing on establishing an environment for mutual learning, rather than the development of elaborate monitoring systems.* Arguably contributing to the risk aversion of donors is the strive to ‘manage results’, which can lead to a focus on ‘quick wins’ rather than longer-term development interventions, such as those to build institutions. An assumption behind the principle of ‘managing for results’ is that the evidence for what works in aid, particularly at scale, is already present. However, this evidence remains thin, in part because much evidence on what works or could work has not been collated and systematized. This has meant that attention has focused on establishing complex monitoring systems, rather than uncovering more evidence about what works at scale and in different contexts.
- *Promoting greater transparency.* Demands for greater transparency have intensified since the Accra Accord. Transparency means that everyone can see who is giving aid, to whom, for what and when. Its lack has reduced the opportunities to find out what really works in aid, inhibiting rigorous research on its effectiveness.<sup>5</sup> It is also an obstacle for enabling co-ordination of donors by recipient country governments. Particularly in a context of increasing numbers of aid donors, co-ordination between them, ensuring that they do not get in each other’s way, is an immediate challenge which needs to be addressed to ensure that a range of development outcomes are achieved.<sup>6</sup>

A second aim of the Busan meeting, in addition to strengthening the possibilities to achieve the MDGs, should be to form a new global consensus on what the framework for

---

<sup>4</sup> See Chandy (2011).

<sup>5</sup> See Ghosh and Kharas (2011).

<sup>6</sup> See Chandy and Kharas (2011).

development co-operation should look like through 2015 and beyond. Clearly a shortcoming of the current aid effectiveness agenda is that it just applies to DAC-donors. The development context though, is rapidly changing with non-DAC aid increasing, along with private funding for development activities and other flows of international development finance (notably climate finance). In 2008, DAC bilateral aid accounted for US\$73 billion, non-DAC aid US\$10 billion, and private sources were estimated to be around US\$60 billion.<sup>7</sup> How these new actors will be incorporated into the aid effectiveness agenda is key to its continued relevance.

The draft HLF4 outcome document also speaks of a ‘broadening and deepening’ agenda that moves beyond aid effectiveness to address development effectiveness. Other flows which can contribute to achieve development outcomes, including climate finance and remittances are increasing, while taxation could be used as an important tool to achieve development outcomes. However, if discussions are broadened to include additional flows so valid concerns about how these can be co-ordinated to ensure policy coherence are central for success.

### **Broadening the agenda: can and should aid effectiveness be a global agenda?**

The term DAC-ability is used to refer, not just to the DAC-defined criteria of ODA, but also whether a donor has the ‘political will’ to share the values and extensive peer review process of the DAC aid system.<sup>8</sup> Providers of South-South development co-operation (SSDC) are increasing. China, a major provider of this form of assistance, offers a high proportion of its finance, not as ODA, but rather as export-credits,<sup>9</sup> reaffirming the importance of moving the agenda from aid effectiveness to development effectiveness. In terms of political will it is also unclear whether SSDC providers, in particular, would wish to commit to the Paris Commitments. Discussions are increasingly focusing on whether it is possible for the aid effectiveness agenda to build on the existing differing foci of donors, for instance with DAC donors supporting social sectors while China and Saudi Arabia emphasise infrastructure and the productive sectors. However, it may be that DAC donors themselves should build on their experience and give more attention to the productive sectors in order for aid to achieve development outcomes. There will be tensions in creating any division of labour across DAC and non-DAC donors and we cannot assume rapid, if any, progress.

The support of aid recipients for the inclusion of non-DAC donors in the aid effectiveness agenda though, also cannot be assumed. It may be advantageous for them if donors compete with each other, rather than co-operate together. Certainly, the ‘no strings’ approach of SSDC has proved to be popular with recipient country governments.<sup>10</sup> If the ownership principle is to be retained then the views of recipients must be considered.

### **Addressing the missing middle: research on the obstacles to effective aid**

Clearly there are challenges in moving the aid effectiveness agenda forwards and in ensuring that this agenda links to development outcomes, currently expressed in terms of the MDGs. In particular, the current effectiveness agenda largely assumes that the evidence for ‘what works’ in aid exists and that this can be uniformly applied to all contexts. This is not the case.

---

<sup>7</sup> As given in Evans (2010)

<sup>8</sup> See Kim and Lightfoot (2011).

<sup>9</sup> See Brautigam (2011).

<sup>10</sup> See Zimmerman and Smith (2011).

Research can add to some of the key discussions necessary to ensure that the aid effectiveness principles translate to effective aid in terms of reducing poverty and promoting development, through:

- *Investigating the role of aid in building effective developmental country leaderships and institutions which enable leaderships to be effective.* Some argue that this it is not possible for aid to be able to influence the interests of the government so that they align with those of its people. Others believe that aid can help countries to overcome the institutional obstacles of unresolved collective action problems and so contribute to building a developmental country leadership.<sup>11</sup> Aid from democratic donors is associated with an increase in the likelihood of a democratic transition.<sup>12</sup> However, democracy on its own is insufficient and leaders also need to have the ability to get things done. Here it may be important to set a few priorities, for instance infrastructure and electricity provision. Capacity-building of national and local government as well as civil society can enable governments to be effective. More needs to be learnt about how this can best be done. The formation of new institutions though, particularly those for enabling effective public spending may be key in some contexts, especially in fragile states.
- *Researching effective aid for fragile states.* No fragile state is on-course to meet any of the MDGs and so investigating the principles behind ‘what works’ in fragile countries is essential. Arguably, aligning aid with government institutions and policies is not best practice for aid in these contexts. In particular it is important to investigate alternative mechanisms and organizations for the delivery of key services and how new institutions can be built in a manner which ensures their sustainability and promotes future national ownership. In doing so we must remember that the fragile states category is itself a donor construction, that donors often have different definitions (and donor lists of fragile states do not overlap), and that country context is paramount.
- *Generating country-specific knowledge on the channels through which aid impacts upon economic growth.* Economic growth is not—and should not be—the only objective for development aid but it is often a necessary condition for political stability and poverty reduction. Recent evidence points to a positive relationship from aid to growth in aggregate.<sup>13</sup> Policy discussion needs to move on from generalizations about aid and growth, take on board the recent evidence on aid and growth and focus on specifics. Research needs to look closely at the country-specific channels through which aid impacts on growth. In particular, how can aid incentivise pro-poor economic growth through generating appropriate forms of employment? Aid research also needs to take a closer look at how aid instruments can help countries stimulate investment in sectors with a higher value-added (what we might term a ‘new industrial policy’).
- *Communicating evidence on ‘what works’ to policy makers.* There is a shortage of evidence about ‘what works’ to reduce poverty and promote development, particularly at scale and whether success in one context can effectively be transferred to different locations. UNU-WIDER’s ReCom programme, in partnership with Danida and Sida, will add to the evidence base about what works and would could work in aid and also

---

<sup>11</sup> See Booth (2011).

<sup>12</sup> See Blodgett Bermeo (2011).

<sup>13</sup> See Arndt, Jones and Tarp (2010).

communicate this, along with existing evidence, to policy makers to inform future development responses.

## **Final comments**

HLF4 is critical for the aid effectiveness agenda. The Busan meeting has the challenge of moving this agenda forwards in a new era through reaching agreement on the next set of commitments. These commitments, though, should not just encompass global principles, but should also involve country-specific targets which provide guidance on how aid can best be spent so that it can be effective at achieving development outcomes. This involves promoting an environment for mutual learning, both between DAC donors as well as with new providers of South-South development co-operation and between donors and research organizations. Central to this is creating an environment where evidence about ‘what works’, ‘what doesn’t work’, and ‘what could work’ is clearly communicated to policy makers and so can be incorporated into development responses.

*Tony Addison is Chief Economist-Deputy Director of UNU-WIDER.*

*Lucy Scott is a UNU-WIDER Research Associate*

## **References:**

- Arndt, C., S. Jones, and F. Tarp (2010). Aid, Growth, and Development: Have We Come Full Circle?, *Journal of Globalization and Development*, Vol. 1: Iss. 2, Article 5.
- Blodgett Bermeo, S. (2011). ‘Foreign aid and regime change: A role for donor intent’, *World Development* 39 (11): 2021-2031
- Booth, D. (2011) ‘Aid effectiveness: bringing country ownership (and politics) back in’. ODI Working Paper 336. African Power and Politics Programme. London: Overseas Development Institute.
- Brautigam, D. (2011). ‘Aid “with Chinese characteristics”’: Chinese foreign aid and development finance meet the OECD-DAC aid regime’, *Journal of International Development* 23: 752-64.
- Chandy, L. (2011) ‘It’s complicated: The challenges of implementing the Paris Declaration on Aid Effectiveness’. Global Economy and Development at Brookings Blog. 22 September. Washington DC: The Brookings Institution.
- Chandy, L., and H. Kharas (2011). ‘Why can’t we all just get along? The practical limits to international development co-operation’, *Journal of International Development* 23: 739-51.
- Evans, A. (2010) ‘Aid effectiveness post-2010: a think piece on ways forward’. Mimeo. London: Overseas Development Institute.
- Evans, A. (2011) ‘The road to Busan and beyond’. Overseas Development Institute Blog. 24 August. London: Overseas Development Institute.
- Ghosh, A. and H. Kharas (2011) The Money Trail: Ranking Donor Transparency in Foreign Aid, *World Development*, 39 (11): 1918-29-

Kim, S., and S. Lightfoot (2011). 'Does "DAC-Ability" really matter? The emergence of non-DAC donors: Introduction to policy arena', *Journal of International Development*, 23: 711–21.

Zimmerman, F., and K. Smith (2011). 'More actors, more ideas, more money for international development co-operation', *Journal of International Development*, 23: 722-38.