

Sustainable Development and International Development Cooperation: Memo 12

1. Aid Effectiveness and Aid Agencies

(1)

Easterly, W. (2007), Are aid agencies improving?, *Economic Policy*, October 2007, pp.633-678

There is a long debate about how effective is foreign aid at creating economic development and eliminating poverty, going back to Rostow (1960), Chenery and Strout (1966), Bauer (1972), Cassen (1987), World Bank (1998), the UN Millennium Project (2005a), Sachs (2005), and Easterly (2006).

Table 1. Chronic problems in aid, past and present

This paper takes a different tack – it adopts as the benchmark what the aid agencies (and consultants to the aid agencies) themselves state to be desirable behaviour. The paper is thus investigating the gap between what aid agencies say would be good behaviour and the way they actually behave; ‘progress’ is defined as closing this gap.

Learning could come at least from three sources: (1) cumulative experience at dealing with some of the chronic problems of foreign aid, (2) reacting to new knowledge in economic research, and (3) reacting to failure. The paper will analyse changes in response to experience to analyse (1), and draw on well-defined episodes of new knowledge and failure to analyse (2) and (3).

the World Bank (International Development Association or IDA for aid), the US, UK, France and Japan

2. LEARNING TO RESOLVE CHRONIC PROBLEMS IN FOREIGN AID

2.1. Donor coordination

Figure 1. Is there decreasing fragmentation in aid giving?

2.2. Aid tying

Figure 2. The decrease in aid tying

2.3. Food aid and technical assistance

Figure 3. Is there a shift away from food aid and technical assistance?

3. LEARNING NEW THEORIES OF DEVELOPMENT

The new approaches in the 1980s suggested that individual projects would have high returns only if national government policies were favorable, and then beginning in the 1990s only if institutions were supportive.

the World Bank’s Assessing Aid in 1998

How much did aid agencies learn from these new waves of thinking about development? How is

such learning reflected in their behaviour? It is indisputable that the aid agencies gave different advice to poor countries based on progress in development economics, and so in this respect at least there was definitely learning.

3.1. Responding to need

With the US, the post-Cold War expectations are confirmed, while for IDA and the other donors they are not.

3.2. Importance of government policies

The overall picture is that there is little evidence that donors are learning to be increasingly selective with respect to policies in the recipient countries.

3.3. Importance of institutions

The bottom line is that there is evidence for some sensitivity to corruption, but there is no evidence for learning by the aid agencies in response to new emphases in the literature about corruption.

Table 10. Results of selectivity tests differentiated by donor

4. LEARNING FROM FAILURE

4.1. Structural adjustment

Despite the accumulating evidence of failure and the problem of repetition, very little change in structural adjustment lending happened from 1980 to 1999. Finally, in 1999 the IMF and World Bank changed the name of the SALs for low-income countries to Poverty Reduction and Growth Facilities (PRGFs) for the IMF and Poverty Reduction Support Credits (PRSCs) for the World Bank. This did not explicitly address the repetition problem; instead, it was advertised at the time as a shift towards more emphasis on poverty reduction, which apparently was a reaction to the criticism that adjustment programmes did not try hard enough to protect the poorest part of the population.

4.2. Debt relief

The cycle of repeated adjustment lending, repeated debt relief, and over-optimism on growth rates in recent years does not seem to promise any escape from the aid syndrome noted way back in 1972 by P.T. Bauer: ‘Concessionary finance used unproductively leads to indebtedness which is then used as an argument for further concessionary finance.’ Here, there seems to be some combination of political pressure and lack of perspective that prevents any real learning to be implemented in escaping the debt cycle.

5. CONCLUSIONS

The record of the aid agencies over time seems to indicate weak evidence of progress due to learning or changes in political support for poverty alleviation. The positive results are an increased sensitivity to per capita income of the recipient (although it happened long ago in the 1970s), a decline in aid tying, and decrease in food aid as a share of total aid. Most of the other evidence – increasing donor fragmentation, unchanged emphasis on technical assistance, little or no sign of increased selectivity with respect to policies and institutions, the adjustment lending-debt relief imbroglio – suggests an unchanged status quo, lack of response to new knowledge, and repetition of past mistakes.

(2)

Easterly, W. and T. Pfutze (2008), “Where does the money go? Best and worst Practices in Foreign Aid”, *Journal of Economic Perspectives*, 22(2), pp.29-52

Research question and analytical methodology

Comparisons of these aid agencies, Best practice for an ideal aid agency: Transparency, Specialization, Selectivity, Ineffective aid channel, Overhead cost

Four main findings

- First, the data on aid agency spending are inexcusably poor.
- Second, the international aid effort is remarkably fragmented along many dimensions.
- Third, aid practices like money going to corrupt autocrats and aid spent through ineffective channels like tied aid, food aid, and technical assistance also continue to be a problem despite decades of criticism.
- Fourth, using the admittedly limited information that we have, we provide rankings of aid agencies on both transparency and different characteristics of aid practice—and one final comprehensive ranking. We find considerable variation among aid agencies in their compliance with best practices. In general, multilateral development banks (except the European Bank for Reconstruction and Development, or EBRD) rated the best, and UN agencies the worst, with bilateral agencies strung out in between.

What Would An Ideal Aid Agency Look Like?

Principal–agent theory

Domestic government bureaucracies in democratic countries have some incentive to deliver their services to the intended beneficiaries, because the ultimate beneficiaries are also voters who can influence the budget and survival of the bureaucracy through their elected politicians.

However, the peculiar situation of the aid bureaucracies is that the intended beneficiaries of their actions—the poor people of the world—have no political voice to influence the behavior of the bureaucracy.

To remedy the feedback problem, a plausible partial solution is to make the operations of the aid agency as transparent as possible, so that any voters of high-income countries who care about the poor intended beneficiaries could pass judgment on what it does.

→Transparency, Specialization, Selectivity, Ineffective aid channel, Overhead cost

Dollar and Levin (2004) rank 41 bilateral and multilateral donors with respect to a “policy selectivity index”.

Acharya, de Lima, and Moore (2004) produce an index for the fragmentation of bilateral aid for a number of donor countries.

the Commitment to Development Index (CDI), which is produced by the Center for Global Development and *Foreign Policy* magazine.

Aid Agencies and Transparency

Operating costs

1) permanent international staff, 2) consultants, 3) and local staff. For their permanent international staff we looked for a breakdown into 4) professional and support staff, 5) nationals of industrialized and developing countries, and 6) staff employed at headquarters and field offices. We also looked for data on 7) total administrative expenses, 8) expenses on salaries and benefits, and 9) the total amount of development assistance disbursed

We gave one point if the number was found on the agency's website. If the number was provided after we inquired by e-mail, half a point was given and the overall score consists of the average points scored.

Table 2 Transparency Indices for Bilateral and Multilateral Agencies

Aid Practices

Specialization/fragmentation, Selectivity, Ineffective aid channels, and Overhead costs.

Specialization/fragmentation

1) from the same donor for all net official development assistance, 2) to the same country for any given donor, or 3) to the same sector for any given donor. All these probabilities are less than 10 percent: 9.6 percent in the first case, 4.6 percent in the second case, and 8.6 percent in the third case. In other words, the aid effort is splintered among many different donors, each agency's aid effort is splintered among many different countries, and each agency's aid effort is also splintered among many different sectors.

Selectivity: Aid Going to Corrupt or Autocratic Countries versus Aid Going to Poor Countries

Composite Selectivity Score $_{.25 \times \text{Percentile Rank}(\text{Share NOT Going to Corrupt Countries})_{.25} \times \text{Percentile Rank}(\text{Share Going to Free Countries})_{.5} \times \text{Percentile Rank}(\text{Share Going to Low-Income Countries})$

Table 3 Aid Shares of Different Categories of Recipients in 2004

UNRWA (United Nations Relief and Works Agency for Palestine Refugees in the Near East)

Ineffective Aid Channels

Three types of aid are widely considered to be intrinsically not very effective: tied aid, food aid, and technical assistance.

Overhead Costs

Table 4 Overhead Cost Indicators Bilateral Donors

Differences among Aid Agencies in Performance

Table 5 Ranking of Donor Agencies on Best Practices in Aid

Table 6 Correlation of Aid Practices across Agencies

This correlation confirms the intuition that more specialization should lead to lower overhead costs, and it also provides some reassurance that our data on these two indicators (especially the lower overhead) are not pure noise. The other indicators that are correlated in a significant manner are selectivity and "avoiding ineffective channels," with a 0.47 coefficient, and "lower overhead" and transparency with 0.38. The latter result may come about because a bloated bureaucracy has an interest in keeping its doings opaque. Finally, there is one significant negative pairwise correlation,

between specialization (concentration) and selectivity (– 0.29). This result may hold because donors that specialize in particular recipients for historical reasons (like colonial ties) pay little attention to their favored recipient's corruption or autocracy.¹¹ The relationship between Portugal and Angola is a well-known example.

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Schedule

Part 3: SD and Developed Countries/Developing Countries

12-13. Paris Declaration, Assessing Aid, Aid and Environment 1/6, 1/13

Part 4: Social Capacity Development and Institutional Change

14. 15. Capacity Development and Institutional Change, Concluding remarks

1/20 (Close) ,1/27 supplement and examination