AS THE GLOBAL ECONOMY struggles to recover from the deepest recession in modern times, all forms of public expenditure face restrictions and cuts. Official Development Assistance (ODA) and development co-operation have come under particular scrutiny. Is aid worth it? Does it make a positive difference in the lives of poor people in developing countries? Or does it merely line the pockets of corrupt officials and fuel the consultancy industry in donor countries? At the same time, many historically generous donor nations have seen sweeping political changes, bringing an emphasis on fiscal restraint and a demand to see more tangible results from tax-funded spending in developing countries.

This occurs against the backdrop of a shift in the balance of global economic weight and power from the West towards emerging economies in Asia and Latin America. Because the emerging economies have significant experience at reducing domestic poverty and a growing presence in developing countries, they are increasingly seen in low-income countries as a force for development. At the same time, traditional donors are beginning to look to these countries as important sources of development finance.

Yet, as we know from the successes of countries as diverse as (but certainly not limited to) South Korea, Botswana, Chile and Mauritius — as well as the founding nations of the Organization for Economic Co-operation and Development (OECD) that benefited from US assistance un-
At the beginning of the 21st century, with annual volumes of aid on the upswing after a decade of decline and “aid fatigue,” it became clear that a new approach was needed to manage these resources more effectively and by supporting partner countries’ efforts to build more effective governments and institutions.

So, as OECD governments cut back on spending and look for ways to get the maximum impact from every dollar, how can we give the right kind of aid? How can we improve aid effectiveness?

**WHAT IS AID EFFECTIVENESS?**

At the beginning of the 21st century, with annual volumes of aid on the upswing after a decade of decline and “aid fatigue,” it became clear that a new approach was needed to manage these resources better. A number of important recent global agreements aimed to improve the impact of development co-operation. The most important of these was the Millennium Declaration of 2000, which — drawing on the foundations laid by the OECD’s Development Assistance Committee (OECD-DAC) for a set of international development targets — secured a global consensus to focus international development co-operation on commitments to tackle hunger, disease, barriers to education, gender inequality, maternal and infant mortality, environmental degradation, and to achieve a more equitable global partnership on issues of trade, development, debt, finance, technology and access to markets.

Building on this emerging global consensus, in 2002 an agreement was reached in Monterrey, Mexico, on financing these goals, including efforts to make sure additional resources would be spent well. The agreements reached at Monterrey marked the beginning of the aid effectiveness agenda as an explicit commitment by official donors.

Under the guidance of the OECD-DAC, in 2003 an agreement was reached in Rome on improving coordination among donors, together with a commitment to use countries’ own financial and accountability systems — all with an eye toward supporting partner countries in their efforts to build better institutions and more effective policies. This was followed in 2005 by a groundbreaking bargain struck between donors and aid-receiving countries in Paris: they signed up to a series of commitments designed to improve the delivery and use of aid, aimed at getting the best impact out of aid resources.

### FIGURE 1 THE ROAD THROUGH PARIS: AID EFFECTIVENESS MILESTONES

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
<th>Description</th>
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<tbody>
<tr>
<td>2000</td>
<td>Global partnership for development: Recognizing the importance of an inclusive, comprehensive international development effort</td>
<td>The eighth Millennium Development Goal (MDG) of the Millennium Declaration calls for a global partnership for development.</td>
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<tr>
<td>2002</td>
<td>High-Level Forum on Development Conference: International consensus sets funding targets to achieve the MDGs, and calls for more effective aid for maximum impact on development</td>
<td>Donors agree to co-ordinate their activities and reduce transaction costs for aid recipients.</td>
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<tr>
<td>2003</td>
<td>High-Level Forum on Harmonization (HLF-1, Rome):</td>
<td>Donors agree to co-ordinate their activities and reduce transaction costs for aid recipients.</td>
</tr>
<tr>
<td>2005</td>
<td>High-Level Forum on Aid Effectiveness (HLF-2, Paris):</td>
<td>Donors and developing countries endorse the Paris Declaration on Aid Effectiveness and commit to improving and monitoring aid quality.</td>
</tr>
<tr>
<td>2008</td>
<td>Third High-Level Forum on Aid Effectiveness (HLF-3, Accra):</td>
<td>Developed, emerging and developing economies, civil society organizations and parliamentarians agree to the Accra Agenda for Action — a framework to accelerate the achievement of the Paris commitments.</td>
</tr>
<tr>
<td>2010</td>
<td>Engaging all actors:</td>
<td>The principles form the basis for new pacts on improving development co-operation: The Bogota Statement marks an agreement between partners engaging in South-South co-operation to deepen the exchange of knowledge and mutual learning. The Declaration on Harmonization (HLF-3, Accra) addresses conflict and fragility through country-led peacebuilding and statebuilding processes. The İstanbul Principles guide the work and practices of civil society organizations as distinct development actors.</td>
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The broad consensus embodied in the Paris Declaration was groundbreaking. It outlined what needed to be done to produce better results (see box on aid effectiveness overleaf), and these basic principles were confirmed in the Accra Agenda for Action (Accra, Ghana, in 2008) delivered by the Third High Level Forum on Aid Effectiveness. Accra more than simply reaffirmed the principles of aid effectiveness, it also agreed that priority must be placed on strengthening developing country ownership of development; executing more effective and inclusive partnerships for development while explicitly acknowledging the value of heterogeneity in such partnerships; and delivering and accounting for development results. This journey culminates later this year with the 4th High Level Forum in Busan, South Korea (Nov. 29-Dec. 1).

**WE HAVE BEEN HERE BEFORE**

Interest in the effectiveness of development co-operation is not new. During the 1990s, as the world contemplated the “lost decade” of development in the 1980s and aid volumes declined, much work was undertaken by academics, researchers and official development agencies to identify the environments in which development co-operation could catalyze positive change, as well as pinpoint those in which it could actually make things worse.

They found that to achieve its full potential, development co-operation must adhere to a set of basic principles: respect for the leadership of...
the country receiving the aid; use of and support for improving the quality of countries’ own systems of budgeting, accountability and financial management; and coordination among donors to avoid overlap, confusion and gaps. But while the intellectual arguments for better approaches began to be well accepted, political incentives to change behavior were still weak, making actual changes few and far between. Not only was there no clear consensus on the overall purpose of aid; donors still had strong incentives to meet their own objectives, rather than the goals of recipients. In many cases, this pointed to the urgent need for improvements in the governance of developing countries to make sure aid resources would not be wasted.

WHY CARE ABOUT AID EFFECTIVENESS?
Poor donor coordination and a lack of harmonization can have serious costs. A review of district health workers in Morogoro, Tanzania, for example, showed that instead of delivering health services, these officials spent 25 days per quarter writing reports for the numerous donors assisting the health sector. In Vietnam, 752 donor visits in 2007 amounted to more than three missions per working day; of these missions, less than one in five was co-ordinated with another donor. Rwanda estimates that in 2009-10, late disbursement of budget support in the education sector added over $2 million to their budget management costs. On a global scale, analysis of annual losses (transaction costs and inefficiencies) resulting from excessive fragmentation shows that these costs could amount to as much as $5 billion annually. And when aid is “tied” — i.e. the recipient is obligated to buy aid-financed goods and services from the donor country — it can lose as much as 25 percent of its value compared to those same goods or services being purchased on the open market.

WHAT CHANGED IN PARIS?
The Paris Declaration’s new broad international consensus outlined what is needed to produce the required results. This consensus built directly on lessons learned by looking at what has and has not worked and why. Among these lessons we know that when donors build their aid programs around a series of stand-alone projects that are designed, implemented and managed by the donor, these don’t result in sustainable development. These projects may be well implemented, but more often than not they run parallel to the country’s own institutions, without covering costs such as maintenance and salaries. Once the project is over, the implementation team disappears leaving no local capacity to continue where the project left off. Donors often are compelled to make their investment spending “visible” to their constituencies. Shiny new hospitals or schools provide photos of opportunities that help to garner support for aid programs, even if there are no doctors, nurses or teachers to manage them. Where projects take a more systemic approach, bringing in local perspectives and participation to provide tangible benefits to poor communities, they have a sustained impact. Unfortunately, however, this type of project has too often been the exception rather than the rule.

Stand-alone projects also don’t tackle the root causes of poor service delivery, nor the structural changes necessary for development. One project at a time will not add up to development, especially if it bypasses the policies and responsibilities of the developing country’s government. Managing and reporting on hundreds of donor projects can also undermine local capacity by creating massive and wasteful administration costs for developing countries. The net result: recipient governments don’t have the time or the capacity to develop and run the policies, programs and budgets required for reducing poverty. At the same time, development projects often poach the best and most talented staff from ministries and local institutions for their teams.

A donor-driven aid program diminishes the accountability of developing governments. Citizens stop demanding an adequate level of service from their own government and instead look to donors. Governments feel more accountable to donors than to their own citizens. And funding bypasses the scrutiny and approval of the national budget, limiting the ability of parliaments to hold their own governments accountable.

Implementing their own projects may give donors a greater sense of control, and along with it better accountability for the use of public funds. But experience has shown that it does not produce the long-term impact needed. The only way that donors can ensure that their funding is well used is if governments and donors work together to monitor implementation of a country’s development strategy and national budget, making decisions based on the whole picture, rather than a small part of the picture.

Another important milestone of the Paris Declaration is that it was designed as an agreement against which progress can be tracked. When adopting commitments for both developing countries and donors, it was agreed that progress would be monitored against a set of 12 indicators and targets to be achieved by 2010. This was the first time in the history of international development co-operation that donors and recipients had agreed to measure their success — or failure — at making aid more effective.

This built-in monitoring system, managed by the DAC Working Party on Aid Effectiveness (WP-EFF), means that the Paris Declaration provides a tool for evidence-based dialogue to improve aid practices and empowers developing countries to push through aid management reforms. As an in-
international partnership of policy makers and aid practitioners from donor and developing countries, the WP-EFF is the principal forum through which policy makers and aid practitioners deal with aid effectiveness issues.

**A NEW STANDARD OF QUALITY**
While the quantitative impacts are still being assessed, and will be released this year, there is already much to say about the qualitative impacts of the Paris Declaration. One clear and lasting legacy is the way it has changed the nature of relationships between donors and recipient countries. This has been achieved through generating fairer work on country programmable aid (predictable); development strategies with their parliaments and electorates (ownership); donors support these 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 — “South-South Co-operation” (Bogotá statement, March 2010) and by civil society and non-governmental organizations (Istanbul Principles, September 2010).

**SOME CHALLENGES REMAIN**
There is no going back — the Paris Declaration has changed the face of development co-operation for good. But there is still action needed on several fronts. First, we must make aid more predictable. This means being transparent and ensuring that developing country governments receive timely information on how much they can expect to receive from donors in advance and over a period of several years. Without an accurate picture of available resources, it is difficult to make the sound budgetary decisions that, in turn, can increase the effectiveness of aid.

A second challenge relates to reducing aid fragmentation. The average size of aid funding has been divided by two over the past 10 years. There are over 4,000 bilateral programs in developing countries, with all the associated costs, but 50 percent of them amount to less than 5 percent of total aid flows. Some countries host more than 30 donors. Aid fragmentation is particularly challenging with multilateral organizations, whose number has been growing dramatically over the last 40 years. In recent years, initiatives of all kinds have been mushrooming, especially in sectors such as health. At the country level, this situation is increasingly difficult to manage.

A final challenge is to build consensus with new donors to ensure all players recognize and apply the aid effectiveness principles. While most of the so-called BRIC countries (Brazil, Russia, India and China) have signed on to the Paris Declaration, they have not been as central to the discussions as many hoped they might be.

Developing countries are part of this bargain, and significant progress in their efforts to fight stock, this forum — which will attract high-level representatives of developed and developing nations, multilateral development agencies, civil society organizations, parliamentary organizations, local governments and the private sector — will be the first international meeting of its kind to focus on aid in the new development landscape. This landscape is characterized by complexity: challenges such as climate change, state fragility and conflict, and food crises; multiple sources of finance; increased development support (financial and knowledge-based) from...
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of high-quality aid that can be implemented by 2015 — the last push towards the UN Millennium Development Goals — and beyond; and it will identify actions to heighten the role and impact of aid in the broader development context. All of this must happen without falling into the trap of an overly bureaucratic view of effectiveness where a focus on improving aid delivery overwhelms broader policy frameworks and the impact on development results.

WHAT NEXT?
At this stage, it can be expected that the main take-aways from Busan will cluster around results, transparency, accountability and support for capable states. The final document produced at the forum will likely stress the importance of engagement by all development actors (including emerging economies, civil society and the private sector) and will seek the application of aid effectiveness concepts in the provision and financing of global public goods (climate change is a prime example). Advancements in this area, however, will only be possible with the application of strong political will from developing countries themselves. Developing country governments will be expected to take the lead in clearly defining their development objectives and requesting that all actors and all resources contribute to and support their development strategies.

Stakeholders expect that the outcome of the Busan forum will be political, short and monitorable. It will confirm the contribution that quality aid makes to meeting the Millennium Development Goals and the broader development goals of developing countries. The forum offers a chance for the international community to respond to new challenges, new approaches and new players in development.

In Busan, there is the opportunity to build a fresh — and flexible — global development partnership that will include today’s diversity of actors and approaches. Inherent to this new partnership is a broader paradigm for development that includes more resources, better coordination and more coherence — a partnership that breaks down the old distinctions between “donors” and “recipients,” between north and south. These are ambitious objectives, but the urgency is there. To reach them, that urgency must be translated into political will. Last year’s Seoul Development Consensus demonstrated that new paradigms, new partnerships are possible. In these times of economic uncertainty, the world simply cannot afford anything less than effective aid and Busan is a critical milestone on the path to more effective development.

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