The Paradox of Aid Effectiveness: Some Personal Reflections on Busan

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What was Busan about?

(1) Monitoring aid effectiveness

- Net ODA disbursements from DAC donors US$ 131B. (2009)

- Fourth High Level Forum on Aid Effectiveness
  - Rome, Paris, Accra, Busan

- Important: Recognizes that donor practices matter. From a one-eyed to a two-eyed approach to aid effectiveness

- Basic question at Busan: By how much has aid effectiveness improved between 2005 and 2010 according to the Paris Declaration principles?
  - 13 agreed targets
Paris Principles

• Developing countries will exercise leadership over their development strategies, and coordinate development actions (“ownership”)
• Donor countries will base their overall support on receiving countries’ national development strategies, institutions and procedures (“alignment”);
• Donor countries will work so that their overall actions are harmonized, transparent and collectively effective (“harmonization”);
• All countries will manage resource and improve decision-making for results (“managing for results”)
• All countries will be mutually accountable for development results (“mutual accountability”)

The Paris Pyramid
What was Busan about?
(2) Beyond aid (effectiveness)

• How to take account of the changing landscape of global capital flows?
  – Esp. SSC, private capital flows, new private philanthropy (Bill Gates, etc)

• Disconnect between improving effectiveness of aid delivery and development effectiveness

• Role of OECD
  – “Beyond aid”=“Beyond DAC”
Busan Outcomes
(1) Indicators (OECD 2011)

• Only one out of 13 targets met
• But progress is being made
• Progress significant for indicators for which developing countries have primary responsibility, less for indicators for which developed countries are primarily responsible.

• Areas of Least Progress
  – Aid for government sector not captured in recipient country budgets and public accounts
  – Little progress on common procedures and joint missions
  – Aid fragmentation is worsening
  – Limited progress in medium/term predictability
  – Limited progress in mutual accountability frameworks
Busan Outcomes

(1) Indicators (OECD 2011)

- Only 37% of developing countries have an operational development strategy (target 75%). Ownership.
- Only 41% of aid for the government sector is reported on the government’s budget (target 85%). Alignment.
- Only 43% of aid for the government sector disbursed within the fiscal year for which it was scheduled (target 71%);
- In the 32 countries participating in 2006 and 2011, the number of parallel project implementation units fell from 1696 to 1158 (target 585)
- Only 57% of technical assistance is implemented through coordinated programmes consistent with national development strategies (target 50% / achieved)
Busan Outcome
(2) Beyond Aid (Effectiveness)

• Inclusive global partnership? Para 2.
  – Nature, modalities, responsibilities of SSC “different” from NSC
  – Busan principles, commitments and action shall be the reference for South-South partners “on voluntary basis”

• From aid effectiveness to (cooperation for) development effectiveness
  – Importance of effective states and institutions

• LDCs versus fragile states (G7plus)
• More indicators? To be agreed by June 2012
OECD Strategy for Development

- Leverage OECD expertise and networks of policy makers to play a crucial role in formulation, implementation and assessment of national development strategies through knowledge sharing and policy dialogue

- Comprehensive approach to development
  - Closer collaboration across OECD departments on development
  - Mainstream development in OECD analysis
  - Upgrade OECD knowledge and skills to ensure policy options tailored for countries at different levels of dev,

- Policy coherence in OECD members, emerging and developing countries.
Korea as an Example
(Based on Wonhyuk Lim 2011)

• “American development agencies found Korea a nightmare, an albatros, a ‘rat-hole’, a bottomless pit…” (Woo 1991)

• 1962 exports $55M.; economic aid+ military aid $500M.p.a. 1956-62

• Korea became a successful aid recipient when it started to use aid to end aid as part of its policy of structural transformation
  – Agriculture, fisheries, manufacturing
  – Support to is proactive STI policy
  – Infrastructure (using reparation funds to develop projects opposed by donors – POSCO, Seoul-Busan Expressway)
The Paradox of Aid Effectiveness

• We now know how economic development occurs and how to promote it
  – *with an environmental caveat*

• But donors are NOT using aid to support this process

• WHY??
  – Four reasons
Ingredients of Sustained High Growth

- Employment and labour productivity growth
- High rates of investment
- Exports, savings and investment all grow together and faster than GDP
- Innovativeness – ability to acquire, use, and adapt foreign technology
- Industrialization based on strong agricultural productivity growth and with continuous upgrading of industrial structure
- Formalization - Rising share of formal economic activities
- Manage rate of urbanization
- Inclusiveness, legitimate inequalities, shared project
- Strategic integration with rest of world (speed, sequencing, scope)
- Pragmatic developmental state - animates, channels, coordinates the private sector in line with national development vision; pragmatism (“truth through facts”; experimentation and learning)
Its certainly not easy

- It's difficult to get started: low-income poverty trap
- It's difficult to sustain: manage inter-sectoral balances in an open economy
- It's possible to get stuck: middle-income trap
- But there is now a wealth of experience from East Asia of how to do it in different contexts
Reason 1: Efforts to Promote Ownership are Not Working
Composition of aid

- Only 54% of bilateral ODA country programmable (2008)
- Economic infrastructure and production sectors are the priorities of most developing countries
- Social sectors and governance are the priorities of most donors
  - Share of ODA commitments to infrastructure+ production in IDA-eligible countries fell from 48% to 28% from 1992-1996 to 2002-2006
  - Share of sector allocable ODA to agriculture in SSA was 7% 2002-2006
  - Share of ODA commitments to infrastructure + production in all developing countries 19% in 2005 but have since risen slightly (more on infrastructure and somewhat agriculture)
ODA by sector, 2009

Source OECD Development and Cooperation Report 2011
## Aid commitments for STI in LDCs
### (avg. annual, $ million)

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<td><strong>Total research</strong></td>
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<td>Research institutions</td>
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Ownership Frontier within PRSPs

Chart 21. The ownership frontier within PRSPs

Source: Based on Furtado and Smith (2007: figure 3).
Slow Development of Aid Management Policies in Recipient Countries

• Aid management policies in recipient countries are a powerful institution for improving aid effectiveness

• In 2010, only 4 out of 76 developing countries surveyed for the UN Development Cooperation Forum had:
  – A detailed aid policy
  – Locally driven quality frameworks including targets for individual aid providers
  – Annual high-level discussion
Reason 2: Donors don’t know how to do it

- Private sector development is a central ingredient of successful growth but ironically donors are really weak in building private sector capabilities
- This is a major difference with new Southern partners
Reason 3: Donors are not interested in doing it.

- Three major uses of aid (Severino and Ray 2009)
  1. Financing economic convergence
  2. Financing global public goods
  3. Financing basic human welfare/rights
- With the introduction of the MDGs, donors have lost interest in (1) and now focus on (2) and (3)
- Concern for measuring impact
- Role of Amartya Sen – Dev as Freedom
Invisibility of Global Inequality

• Milanovic Facts
  – The richest 1% of the world population receive as much as the poorest 2.7 billion
  – The poorest 20% of the world population receive 1% of the world’s income
  – Inter-country inequality weighted by population explains 80% of total global inequality

• Denial of the significance of international inequality
  – There is no global moral community
  – Methodological nationalism – “it is their fault”
The interrelation between the three main uses of ODA?

- Financing economic convergence/development of productive capacities
- Financing global public goods
- Financing basic human welfare

Based on Severino and Ray (2009) "The end of ODA"
Reason 4: Donors do not think it is in their interests to do it

- They do not want to create more “Koreas”
- “We like competition but we don’t like competitors”.
- Is it politically possible to use aid to promote economic convergence?
- Short-term adjustment costs are undermining confidence in the dynamism of capitalism
Implications for Improving Aid Effectiveness (1)

- Focus on improving ownership through promoting aid management policies at recipient country level
- Increase share of country programmable aid and provide a greater share of aid to developing productive capacities and promoting economic convergence
- Learn from Southern partners how to promote development of production sectors, infrastructure and STI
Implications for Improving Aid Effectiveness (2)

• Understand better the interrelationships between economic convergence, provision of global public goods and meeting basic human welfare
• Reinforce development dimensions of international economic regimes (trade, IPR, finance, migration)
• Re-affirm the dynamic properties of capitalism
• Address the environmental caveat (decoupling)
Address the environmental caveat
Back to Busan
Thank you

The views in the powerpoint do not reflect those of UNCTAD.