DFID's Vision of Aid Effectiveness

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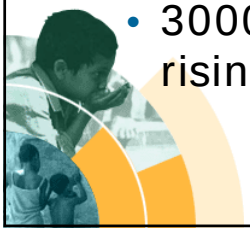
Director of Global Development Effectiveness
FASID, Tokyo, October 2006

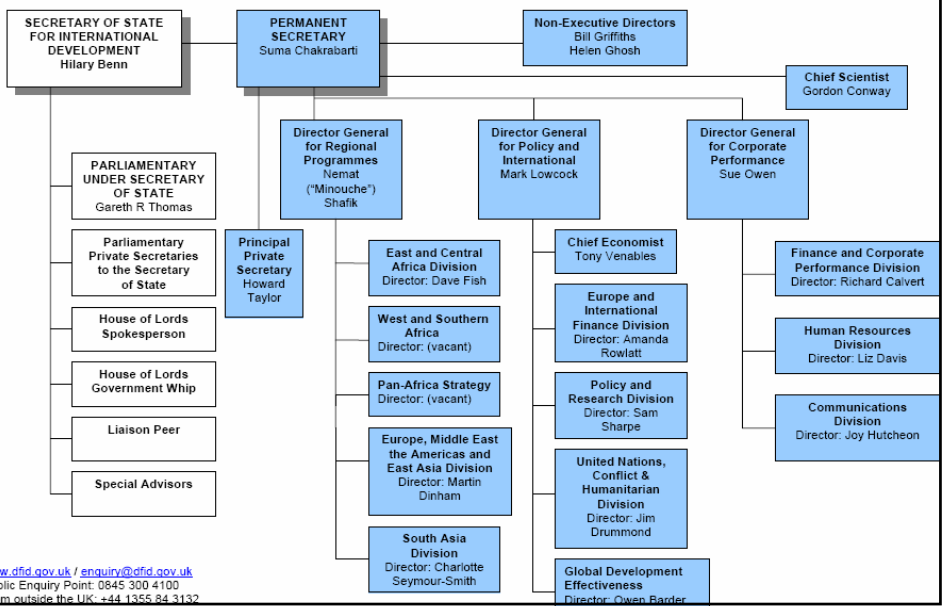
Learning not preaching

What is DFID?

- All UK aid
  - Bilateral, multilateral, grants, technical cooperation …
- Development policy (not just aid)
- Cabinet minister (Mr Benn)
- Single mission: poverty reduction
- 3000 staff; budget of $8 billion rising to $15 billion in 2010



Organisation chart



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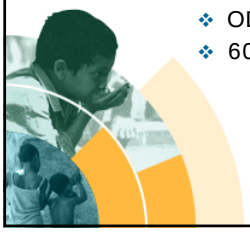
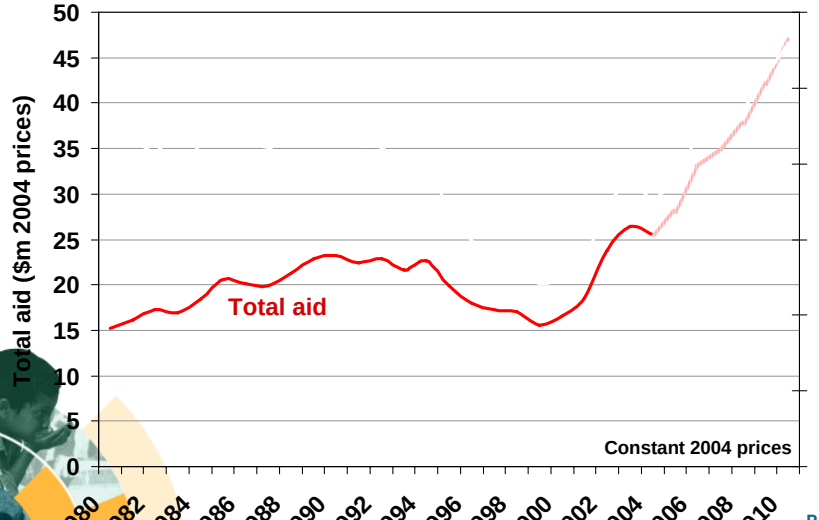
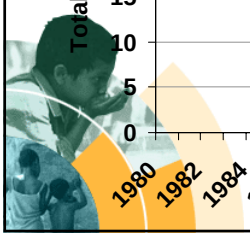
Planned increases in aid

- Millennium Project
  - $194 billion a year by 2015
- Africa Commission
  - $50 billion a year to Africa by 2010
  - $75 billion a year to Africa by 2015
- Gleneagles G8 summit
  - Additional $50 billion a year by 2010
  - Of which half to Africa
- DAC estimates of commitments
  - ODA will rise to $128 billion a year by 2010
  - 60% increase over 2004



Aid to sub-Saharan Africa





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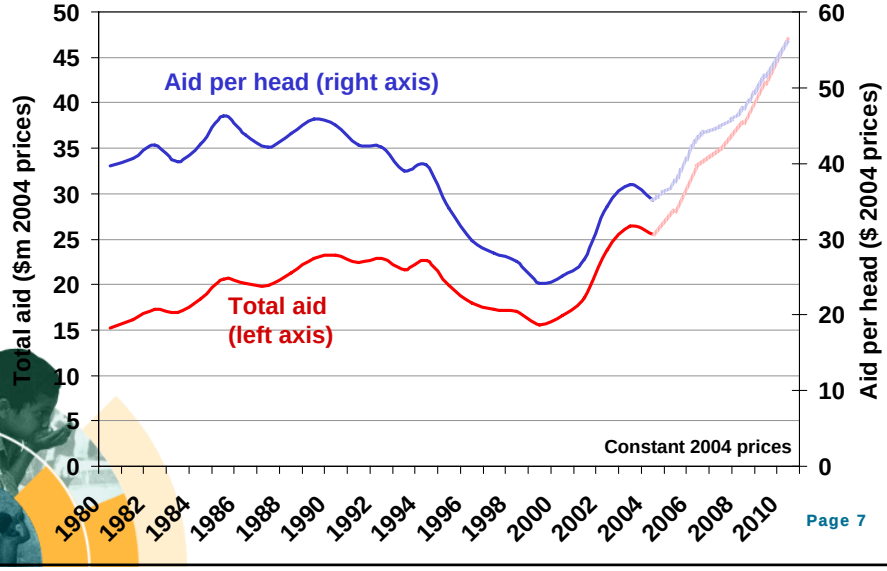

Is current aid effective?

- Microeconomic testimony
  - Evaluations and project reviews
  - Not statistically robust
- Aid-growth regressions
  - No clear linear relationship
  - Strong non-linear relationship
  - High ROI
  - Decreasing returns to scale
- Benefits other than short run growth
  - Humanitarian, consumption
  - Long run investment

Broad consensus on effectiveness

- Evidence not as good as it should be, but
- Aid effective at current levels, but
- With diminishing marginal returns
- So additional aid will be less effective
- Unless we can deliver it better
- And we need to show it is effective

Priority reforms

- Provide predictable aid
- Support national systems (“alignment”)
- Measure results not inputs
- Reduce earmarking to allow better resource use
- Harmonize and specialize
- Support economic growth
- Untie aid to improve cost effectiveness
- Be transparent

Paris declaration

- **Ownership -** Partner countries exercise effective leadership over their development policies, and strategies and co-ordinate development actions;
- **Alignment -** Donors base their overall support on partner countries' national development strategies, institutions and procedures;
- **Harmonisation -** Donor's actions are more harmonised, transparent and collectively effective;
- **Managing for results -** Managing resources and improving decision-making for results;
- **Mutual accountability:** Donors and partners are accountable for development results.

Web link

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What is budget support?

- a transfer of resources to the partner government's national treasury to support the government's policy and expenditure programme
- allocated, spent and accounted for by government's own financial management systems
- monitoring, conditionality, dialogue always linked to financial aid.

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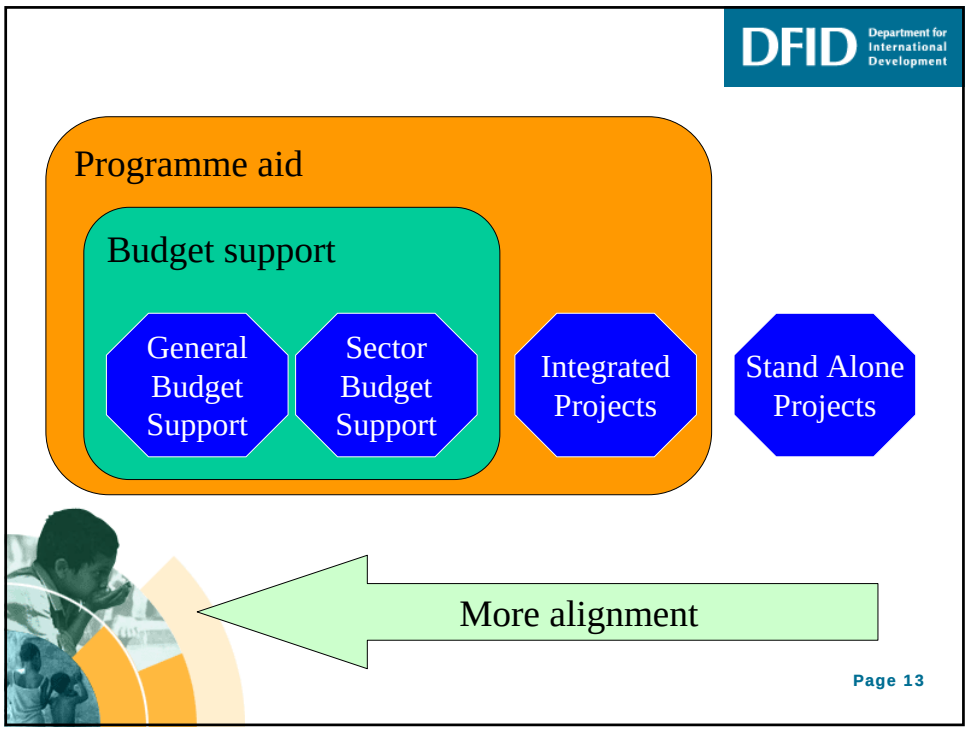
DFID
Department for International Development
Programme aid
Budget support
General Budget Support
Sector Budget Support
Integrated Projects
Stand Alone Projects
More alignment
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DFID
Department for International Development
Budget support is one way to improve aid
• Automatic alignment with government programme
• Broader dialogue (PFM, public administration)
• Retains accountability chain
• Lower transactions costs for governments and partners
• Focuses attention and capacity building efforts on national systems
• But it is not the only way to achieve these goals
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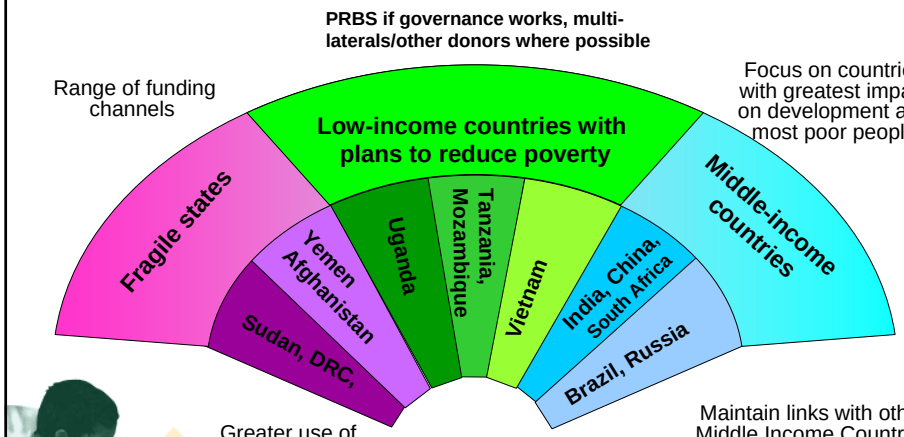
Choosing instruments



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Programme aid

Budget support

General Budget Support

Sector Budget Support

Integrated Projects

Stand Alone Projects

UK target: 50% by 2007/08

Paris target: 66% by 2010

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Joint Evaluation of budget support

- Positive effects on harmonisation and alignment – effect beyond budget support
- Expansions in health and education service delivery (but quality and targeting issues)
- Strengthened PFM (fiscal space, efficiency, planning/budgeting)

But…

- Limited effects directly in promoting growth and reducing income poverty
- No impact on domestic accountability and empowerment of the poor
- Positive effects on transparency but no evidence yet of reduced corruption

Web link

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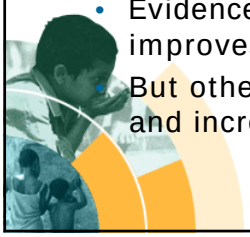
Conclusions

- Aid effectiveness is vital to poverty reduction and to public support for development
- Need instruments that support and do not undermine long term institutional development
- Budget support is particularly effective where possible; but challenges in many environments.
- There are other possible instruments but they must be used carefully.
- Evidence that budget support strengthens alignment, improves governance
- But other interventions also needed to build capacity and increase accountability



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Making aid more effective

DFID Department for International Development

1. Transactions costs	§ limit proliferation § use recipient systems § link aid to results
2. Skills shortages	§ minimize earmarking § improve technical assistance § long-term predictable aid
3. Scarcity of good projects	§ scale up successful projects § better evaluation
4. Dutch disease	§ provide long term aid § use aid for imports § investing in competitiveness
5. Macroeconomic volatility	§ less volatile aid § more predictable aid § save temporary increases
6. Corrodes accountability	§ use process conditionality § support PRSPs § no additionality requirement
7. Resource curse	§ aid through budgets § publish what you pay § information campaigns