Deutsches Institut für Entwicklungspolitik

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Does more aid equal to more aid effectiveness?

By Dr. Jörg Faust,
German Development Institute /
Deutsches Institut für Entwicklungspolitik (DIE)

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Bonn, 25 October 2010. The United Nations (UN) Summit on the Millennium Development Goals ended a few weeks ago. Like many others, the German Chancellor voiced the opinion that it was not only the financial resources made available to development cooperation that were important, but more especially how effectively those resources were employed. These statements reflect the in increasing consensus that the volume of aid is far from determining its effectiveness in terms of achieving key goals such as poverty reduction, peacekeeping and promoting democracy.

Cross-country comparisons do not provide robust statistical evidence that the volume of transfers has positive effects on economic development or "good" governance. Whether or not development policy is effective is thus not (only) dependent on the volume of aid, but above all on the quality of the development policy interventions as a whole in a particular country. And a considerable number of regulatory policy reforms – i.e. institutional incentive systems – are needed in order to promote the quality of interventions necessary to boost aid effectiveness.

More development assistant does not mean more effectiveness

Development cooperation often addresses countries with limited administrative capacities, limited rule of law and low levels of democratic participation. It can, therefore, hardly be assumed that more money poured into such countries will automatically lead to greater effectiveness. As a result, development policy is always a risky investment of public resources. To minimise the endogenous risks of development cooperation it is not only partner countries, which are required to act by undertaking more efforts to implement development-friendly reforms. Donors also have a key role to play but like actors in recipient countries, one cannot automatically assume that aid and foreign policy agencies on the donor side will always focus their efforts on achieving the collective goals of the policy field.

Much like large parts of national health and education policy, cross-border development assistance is characterized by the redistribution of resources through the state, which comes along with huge challenges for regulatory policy. Very few would doubt the appropriateness of redistribution in domestic social policies. Yet, it is also evident that interest groups active in these policy fields are not acting solely in the public's interests. That is true of teachers' unions and schoolbook publishers as it is for the pharmaceutical industry, health insurances and doctors' associations. Organised social groups will always attempt to primarily gear their efforts to their specific interests and this easily can come at the expense of collective goal achievement. Here, there is need for state intervention: not for overtaking private activities or building bureaucratic monsters but instead for establishing a regulatory framework that sets strong incentives for self-interested organisations to gear their efforts towards the achievements of collective goals.

Regulatory reforms for more effectiveness

The same can be said of development policy. Most non-governmental organisations (NGOs), government implementing agencies, as well as multilateral organisations such as the World Bank or the United Nations Development Programme (UNDP) would most likely agree that international development funding must be increased because all these organisations benefit from that increase. But this common preference for more funds says little about how the strategic and organisational positioning of international cooperation can contribute to effectiveness and efficiency. However, growing criticism of the international aid industry and donor governments' subsequent commitment to institutional reforms indicate the need for reforms.

There are numerous regulatory problems in this policy field: The proliferation of actors, projects and instruments over the past few decades; the escalating lobby activities of development policy actors in their play for scarce resources; the insufficient attention being paid to conflicting objecttives in a steadily growing catalogue of goals – from poverty reduction to democracy promotion, peacekeeping, ecological sustainability and the promotion of one's own economic interests; the duplication of responsibilities among multilateral and bilateral actors. All these deficiencies pose regulatory challenges that require highly differenttiated solutions.

How are we to deal with economically successful autocracies such as Ethiopia and Vietnam, whose support may possibly benefit poverty reduction but which can also stabilise authoritarian structures? How are we to organise an effective division of labour between donors so as to relieve the administrative burden on recipients' state structures, which particularly in least developed countries (LCDs) tend to be further weakened rather than strengthened on account of project proliferation? How can the legitimate bilateral interests of individual donors be embedded in an international framework that is underpinned by a weak and fragmented UN system? How can the billions pledged to developing countries for the required turnaround in climate policy be absorbed by states whose capacity to act is usually classed as insufficient or precarious?

Greater effort for common benefits

In order to be able to find answers to these questions, donor countries need parliaments that are capable of aggregating disperse interests in encompassing programmes and governments that face up to their task of implementing regulatory frameworks geared towards the common good. For development assistance this applies at the national but even more so at the international level, since the effectiveness of this increasingly borderless policy field can be influenced only to a very limited degree by purely bilateral strategies. Moreover, more courage is needed to openly address these problems rather than to cultivate the discourse that development policy's effectiveness is essentially dependent on the amount of money spend. Taxpayers and recipients alike have a hard time understanding the current international aid system. But without transparency concerning one's own regulatory efforts and without an independent assessment of the development programmes derived there from the already eroding legitimacy of this policy is being put at risk.

Without a doubt, these are not problems to which simple solutions can be found. To be sure – like in national education, health and environmental policy – the search of solutions will give rise to intense debate because regulatory reforms in times of scarce resources produce winners and losers. But regulatory success is highly on demand from a collective perspective of the policy field and therefore should form the heart of the debate on aid effectiveness. Whether it will be possible to mobilise five or ten per cent more or less funding is, in view of the regulatory tasks, first and foremost of lesser significance – although a large number of organisations that profit from development policy funding will of course vehemently deny that.

A more detailed analysis on this subject was published recently (in German only) in the book: "Wirksamere Entwicklungspolitik: Befunde, Reformen, Instrumente".

Dr. Jörg Faust

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