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An overview of aid effectiveness determinants and strategies

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Abstract

This paper provides an overview of issues relating to aid effectiveness. It argues that it is impossible to give a definitive answer to the question of whether aid is effective, and that it is more useful to ask what can be done to make aid more effective. The paper then groups the various determinants of aid effectiveness, as well as strategies to improve effectiveness, under three headings: the performance of the recipient (developing) country government; the performance of the aid agency of the donor (developed) country; and the interaction between the two. This provides, it is argued, a useful framework within which to understand different and competing arguments about how to improve aid effectiveness.

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An overview of aid effectiveness determinants and strategies

1. Introduction

This paper provides an overview of the issues relating to aid effectiveness. It explains the various factors which may influence aid effectiveness, as well as the strategies to address them, and places both within a simple conceptual framework.

The next section provides the context with an examination of recent aid trends. Section 3 explains why it is impossible to give a definitive answer to the question of whether aid is effective, and argues that it is more useful to ask what can be done to make aid more effective. Section 4 outlines the three categories of determinants of aid effectiveness: the performance of the recipient (developing) country government; the performance of the aid agency of the donor (developed) country; and the interaction between the two. Sections 5 to 7 consider each of these determinants in turn, with a focus on strategies to address them. Section 8 concludes.

2. Recent aid trends

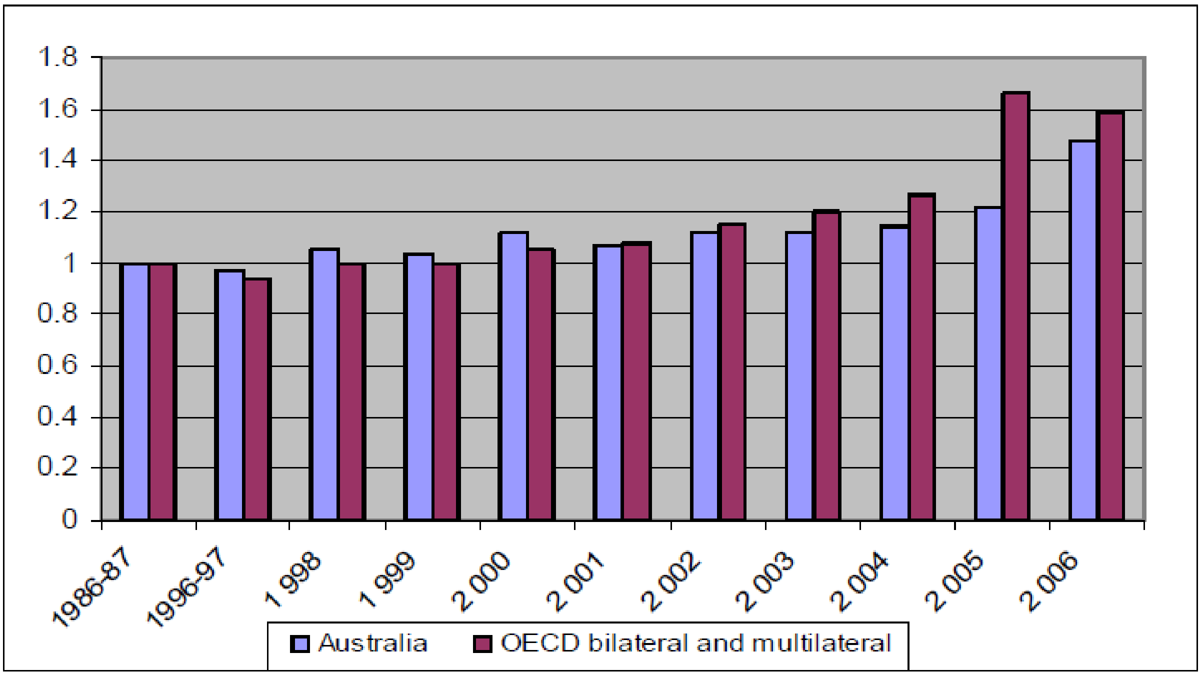
After a period of stagnation, official development assistance (ODA, or, simply, aid) volumes started increasing around the turn of the century.[1] Figure 1 shows total and Australian official aid since the mid-eighties (with aid in 1986-87 set equal to one). The total (OECD) aid figure includes both bilateral aid directly from individual OECD countries and multilateral aid routed through agencies such as the World Bank.[2] As Figure 1 shows, official aid volumes in the mid- and late-nineties were, in real terms, at the same level as at the mid-eighties. But in around 2000 they started to increase, and by 2006 aid was 60% above 1999 levels. For Australia, the increase came later, but has been of a similar magnitude. Aid has increased for a number of reasons. Greater prosperity in the West, and improved budgetary positions facilitated greater generosity. The focus on the Millenium Development Goals generated support in the West for greater aid in an effort to 'Make Poverty History,' in the words of a popular campaigning

[1] For a concise history of the evolution of the post-war aid architecture, see World Bank (2007, Annex I).
[2] Roughly, bilateral agencies make up 70% of this total and multilateral about 30%. There are about 20 OECD donors included in this total. These are the members of the Development Assistance Committee (DAC), and include all the major OECD bilateral donors (World Bank 2007).

slogan. Perhaps most importantly of all, the terrorist attacks of September 11, 2001 sensitized the West to the cost of failed states.[3]

While the long-held but rarely-met commitment of OECD countries to increase aid to 0.7% of Gross National Income still looks out of reach, official commitments indicate more aid will be on its way. The 2005 G8 Gleneagles Communiqué estimated that OECD aid in 2010 would be up on 2004 levels by $US 50 billion, which would require another $24 billion on 2007 levels. Australia has undertaken to increase aid to 0.5% of GNI by 2015, up from 0.32% in 2007. The global financial crisis and subsequent recession has reduced the prospects of these increases being met, though Australia has recently reiterated its 2015 commitment.

Figure 1: The increase in official aid volumes from OECD (bilateral and multilateral) and Australia relative to 198687 (set equal to 1), measured in 2006 USD.



Note and source: Net disbursements. DAC Aid statistics http://www.oecd.org/dataoecd/52/9/41808765.xls

Non-government and non-OECD aid is also growing. Kharas (2007) estimates that global private aid might be at around $US 37-44 billion a year, compared to the $US 100 billion of OECD official aid. Kharas also finds that non-government aid is expanding rapidly,

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[3] President Bush announced a 50% increase in US ODA on March 14, 2002 (Easterly 2006, p. 47).

with a four-fold rate of increase per decade, at which rate it will not be long before private aid comes to match official aid in magnitude. Some countries from outside the OECD are increasingly active as aid donors, including China and India and some Middle-eastern countries. Kharas estimates that countries from outside the OECD contributed about $US 8 billion of aid in 2005, an amount which is also growing quickly.

The number of aid agencies is also on the increase. At the start of the century, the United States had one aid agency but now it has three.[4] In many countries, other government departments have become more involved in the delivery of the aid program. In Australia, aid spending by agencies other than AusAID grew from 6% of total aid in 1996-97 to about 25% in 2005-06 (AusAID 2005, p. 14). There are also a growing number of multilateral actors, with the emergence of specialized agencies such as the Global Fund to Fight AIDS, Tuberculosis and Malaria. A recent estimate puts at over 230 the number of official 'international organizations, funds, and programs' involved in providing aid, with over than 100 in the health sector alone (World Bank 2007, p. ii). There are new private foundations, most famously the Bill and Melinda Gates Foundation. And of course there has been the entry of new non-OECD government agencies.

The type of countries receiving aid has also changed. East Asian countries such as Korea and China have gone from being aid recipients to aid donors. As successful countries graduate from recipient status, those receiving aid are increasingly in the 'hard to aid' category. Moreover, aid is being used increasingly in conflict situations. Countries which are seen as terrorist threats or havens such as Iraq, Afghanistan and Pakistan have become increasingly important to donors. The sums of money involved are large. In 2006, the United States Department of Defence, which primarily operates in these countries, was responsible for 21% of US ODA, up from 6% in 2002 (Petřík 2008).[5] Another estimate has one-third of United States aid going to the twin wars on terror and drugs (Oxfam America 2008). Closer to home, Australian aid also plays a peacekeeping role in East Timor and Solomon Islands. Clearly, the aid effectiveness challenges in these

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[4] As well as the United States Agency for International Development, the Millenium Challenge Corporation (2002) and the U.S. President's Emergency Plan for AIDS Relief (PEPFAR), under the Direction of the US Global AIDS Coordinator in the Department of State (2003)

[5] Note that this is not military expenditure which doesn't count as ODA, but reconstruction funding administered by the Department of Defence.

countries are very different to, and more severe than, those in countries which are at peace. In general, the environment within which aid is being delivered is becoming more difficult.

Finally, the way in which aid is being delivered is also changing. The typical intervention by an aid agency in the early decades of aid, say the 1960s, was a five-year capital project, such as the construction of a power plant. The recipient country was meant to ensure the sustainability of the project by supplying recurrent funding. But as aid agencies have moved into the social sectors, and as they have seen recipient countries unable to supply recurrent funding, and overwhelmed by too many projects, they have moved away from the project-based approach in two directions. First, they have come to stress more the importance of having a country strategy, of individual interventions being consistent with that strategy, and of evaluating success at the country rather than project level. Second, they have come to stress the need for broad and long-term support, including for recurrent funding, provided through programs rather than projects. At the extreme, some agencies provided un-earmarked budget funding, though this form of aid makes up only about 5% of OECD aid (World Bank 2007). More commonly, donors increasingly provide support for sectors (e.g. primary education) as against projects (building schools). Sector programs – wide-ranging programs in particular sectors which any number of donors can support – expanded from only 1% of total OECD aid in 2001 to 15% in 2004 (World Bank 2007).

3. Is aid effective?

The starting point for any analysis of aid effectiveness must be the objectives of aid, since the effectiveness of an instrument can only be defined in relation to its objectives. Aid can have several objectives. Nearly all countries have signed up to the Millennium Development Goals, which articulate a number of development goals for developing nations to be achieved by 2015, such as the halving of extreme poverty, and which emphasize the provision of aid as important for the achievement of these goals. But aid also has commercial, political, diplomatic and security objectives. Indeed, some critics argue that these other objectives are more important than any poverty-reduction objective (Ridell 2007). For example, one of five objectives of the United States International Agency for Development (USAID) in 2004 was to support 'US geostrategic interests' (USAID 2004). American aid is still tied to the purchase of American goods and services.[6] For the Australian aid program, the objective is 'to assist developing countries reduce poverty and achieve sustainable development, in line with Australia's national interest.'[7]

Should aid effectiveness then be assessed only in relation to poverty reduction, or also in relation to the other objectives it serves, for example, its ability to advance the national interest? A more accurate assessment would take the latter approach, but, even just taking a single objective, the analysis of aid effectiveness is difficult enough. This paper assesses the effectiveness of aid against the single objective of poverty reduction in developing countries. This is an important limitation. Some aspects of aid, which are sub-optimal from the perspective of poverty reduction, make good sense once the other objectives of aid giving are understood. For example, as we will see later in the paper, aid agencies are not selective enough. They spread their funds too widely, resulting in high fragmentation and transaction costs. No doubt, the objective of global poverty reduction would benefit from greater specialization. But it is not in the national interest of donors to specialize. Donors want to spread their money around many countries, and many sectors in order that they can be visible, and be seen to be helpful. Such symbolic acts advance the national interest, but undermine the goal of poverty reduction.

Does aid help reduce global poverty? There is certainly an official international consensus that it does. The 2002 Monterrey conference on financing for development, which enjoyed widespread and high-level participation from the world's nations, noted that aid 'plays an essential role… especially in those countries with the least capacity to attract private direct investment.' And recognized that 'a substantial increase in ODA and other resources will be required if developing countries are to achieve' the MDGs.

By contrast, in the academic literature on aid, there are a wide range of often conflicting views on aid effectiveness. These can be distinguished along two dimensions – good and bad, large and small – giving rise to four distinct views:

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[6] An exception to this is aid from the Millenium Challenge Corporation.
[7] http://www.ausaid.gov.au/makediff/default.cfm, February 5 2009.

- Some, such as Jeffrey Sachs (2005), argue that aid could have a transformative (good and large) effect if applied in the right way and in large enough volumes. Aid, Sachs argues, could help countries escape from poverty traps by supplying much needed investment which poor countries are unable to provide from their own meager resources.
- Others agree that aid can have a large impact, but in a negative rather than positive direction. The well-known critics Bauer and Yamey (1982) argued that aid has "far-reaching damaging political and economic results" since it strengthens the hand of incompetent domestic governments and thereby "promotes the disasterous politiciziation of life in the Third World." A more recent re-statement of the Bauer-Yamey position can be found in Moss, Pettersson and van de Walle (2008).[8]
- A third group argue that aid is a minor determinant of development, the key ingredients for which are domestic, but that it can be a positive contributor at the margin. Lewis (1982) illustrates this view: "The aid input usually is a minor determinant of development outcomes; it can catalyze internal forces positively, but it can also fail to do so – or be swamped by extraneous circumstances." Or more recently, as argued by Rodrik, Birdsall and Subramaniam (2005): "sustained growth and poverty reduction depends…principally on the recipient country. At its best, aid can help reconstruction, remove certain bottlenecks, and finance useful public projects; what it cannot do is ignite or sustain economic growth."
- Last but not least, Easterly (2006) agrees with the view that the main determinant of domestic success is domestic institutions. Though he concedes that aid has some good results to its credit, his concurrence with the view that aid 'probably worsens' bad governments (p. 157) represents the fourth possible combination of views: aid as a minor but negative determinant of development.

Which of these views is correct? Clearly, much depends on the country concerned. In aggregate, aid volumes are small relative to other financial flows, and, even more so,

[8] Moss, Pettersson and van de Walle (2008) conclude from their review of the literature that 'a large and sustained volume of aid can have negative effects on the development of public good institutions in low-income countries.' (p. 274), though the authors concede that this is only a 'tentative claim.'

relative to economic activity in developing countries. Aid volumes sound large when stated in total, cumulative terms, but much less in terms of annual, per capita spending. Thus post-war aid by some estimates is $US2.3 trillion, but this amounts to only $US14 per person per year in poor countries (Radalet 2006). It is unlikely that such small volumes of financing can have a large impact in either a positive or a negative direction. But aid can be much more influential in the poorest, and often smallest economies. In the average sub-Sahara African country, in the late nineties, aid was about 5% of GDP (Lancaster 1999). There are 25 low-income countries where aid is more than half of government expenditure (Moss & Subramanian 2005).

Certainly, one can point to cases where aid has helped deliver spectacular results. The Marshall Plan – the financing by the United States of Europe's postwar reconstruction – is often cited as aid's finest moment. Aid financed the research and extension projects which led to the adoption of high-yielding wheat varieties by India's farmers. This Green Revolution dramatically increased crop yields and reduced poverty.[9] Bangladesh has been partially transformed by its huge NGOs, all of which grew with the support of international donors. The global campaigns which eradicated smallpox and polio were aid-financed. More generally, aid has probably contributed to the impressive rise in literacy and life expectancy in developing countries (Easterly 2006, p. 176). Closer to home, and more recently, Australian aid has helped stabilize countries in distress, Timor Leste, and the Solomon Islands.

But there are also counter-examples, where aid has not made any positive contribution or made things worse. Maren (1997) blames Somalia's civil wars on competition for controlling of large-scale food aid.[10] Australia's technical assistance to the Timor Leste police force did nothing to prevent police involvement in the violent destabilization of that country's government in 2006.

Many economists have tried to provide a quantitative answer to the question of aid effectiveness by examining economic data and asking whether more aid has led to more rapid growth. McGillivray and colleagues (2005) have concluded that that the vast majority of studies published since 1998 find that growth would be lower in the absence

[9] India went from producing 11 million tons of wheat in 1960 to 55 million in 1990.
[10] Extracted from Knack (1999).

of aid. But there are notable dissenters, including Rajan and Subramaniam (2005) and Easterly (2003). Another survey by Doucouliagos and Paldam (2009) reach the opposite conclusion, namely that 'the preponderance of the evidence indicates that aid has not been effective.' Papers by Pritchett (2000), Roodman (2007a, 2007b) and Deaton (2009) cast significant doubt on the validity of the econometric methods used to establish (or disprove) an aid-growth link.

Why is it so difficult to determine the effectiveness of aid? One reason is that it is difficult to establish the counter-factual. What would country X's performance have been with less or no aid? Would it have been very similar, perhaps just with slightly lower public investment? Would the withdrawal of aid have provided a 'wake up' call, and spurred the recipient government to improve? Or would it have led to decline and possibly conflict? Evaluation of the impact of aid is an intrinsically difficult task, especially when the impact is sought in a high-level indicator such as economic growth, whose short-run determinants are often poorly understood.

Another reason is that there are many types of aid delivered in many different environments. Aid covers emergency responses (humanitarian aid), the provision of expertise to governments (technical assistance), the financing of specific investments or expenditures (project aid), and the provision of less tied financing to recipient governments (budget support). In addition, aid goes to a wide-range of countries, fast-growing and slow, peaceful and unstable. In such a varying context, it is simply not possible to make a broad-brush conclusion about the overall performance of aid.

In summary, a comprehensive assessment of the effectiveness of aid is well beyond the scope of this paper. A much simpler approach, and the one taken in this paper, is simply to recognize that aid will continue to represent a large and probably growing commitment of rich governments and to ask what can be done to make this expenditure more effective.

4. The determinants of aid effectiveness

What makes aid more or less effective in reducing poverty? The many factors impacting on aid effectiveness can be grouped into three different categories. First and foremost, the effectiveness of aid depends on the quality of the government of the country receiving that aid. This argument became influential with the publication of the World Bank (1998) *Assessing Aid* report, which claimed to show that aid was more effective in countries which had sounder policies. The econometrics behind this claim has since been debunked (Easterly et al. 2003), but the finding itself appears sound (Dollar & Burnside 2004). It also ties in with the now widely-accepted view that domestic institutions are the primary determinant of domestic economic performance (Rodrik 2003). If this is the case, then one would indeed expect the productivity of aid in a particular country to be a function of the institutions of that country. The emphasis on promoting good governance is also supported by the finding that aid is fungible, that is, that increased aid funding to a particular sector is at least partially offset by reduced government funding to that sector (Swaroop & Devarajan, 1998). If so, the true impact of aid lies outside the sector directly receiving the funding, and donors need to be concerned not with individual aid-funded interventions but with overall governance.

Second, aid effectiveness depends on the quality of the aid donor. Some analysts argue that the performance of aid is undermined because aid donors are not subject to the usual accountability and feedback mechanisms which govern public sector operations in developed countries (Easterly 2006; Svensson 2008). The large levels of discretion around aid activities can undermine performance, and aid donors may also lack the local and technical knowledge required to be effective operators.

Third, aid effectiveness depends on the way in which the aid business is organized. Donors themselves now recognize that the presence of a large number of aid agencies, acting in an uncoordinated manner, increases the transaction costs for recipient governments, and can actually undermine the legitimacy and performance of the governments they are trying to assist.

Each of these diagnoses captures some of the truth about aid effectiveness, though analysts differ on their importance (Box 1). In the view of most economists and aid practitioners, the first is the most important. An effective recipient government is able to direct the aid process, and so to compensate for weaknesses of donor agencies, and to ensure that donor-government interactions are reasonably well-organized. This implies that aid agencies should direct more aid to more effective governments, and try to improve the standards of governance in their aid recipients. However, both these strategies can only be pushed so far. Often the risks associated with aid withdrawal are particularly high in relation to the worst-performing governments. And the capacity of aid programs to improve governance standards is often severely limited. Given this limited scope for navigation in this domain, aid donors which want to improve aid effectiveness will also need to focus on the second and third determinants: improving their own performance, and strengthening donor coordination.

The next three sections examine each of these three determinants, and explore strategies for addressing each of them. One of the benefits of the systematic approach taken in this paper is that it helps to situate and compare the various critiques of aid in the academic literature. Since 2005, aid effectiveness has become a hot topic with high-profile academics writing non-technical books on the subject which have become best-sellers. Box 1 highlights the best known of these three books, and explores how the arguments expounded in each can be understood within the framework constructed in this paper.

Box 1: Aid effectiveness as a best seller: Sachs, Easterly and Collier.

Perhaps because of the growing volumes involved, aid issues have received increased international attention in recent years. There is fierce debate over the effectiveness of aid among academics. Three recent books on aid have, surprisingly, become best-sellers: Jeffrey Sachs' *The End of Poverty: economic possibilities for our* time (2005), William Easterly's *The White Man's Burden: why the West's efforts to aid the rest have done so much ill and so little good (2006)*, and Paul Collier's *The Bottom Billion: why the poor countries are failing and what can be done about it* (2007). These books give starkly different diagnoses and recommendations. Each of them is an exercise in advocacy. Convincing on their own, their combined effect can be to confuse rather than illuminate.

The diagnoses of the three books fit neatly into the framework for aid effectiveness established in this paper. Collier's main focus in on the shortcomings of the recipient governments, and what donors can do about them. Easterly's main focus is on the shortcomings of donors themselves, and how performance feedback to donors can be strengthened. Sachs argues that the current aid system is dysfunctional, but that aid can be effective provided that donors provide more of it and coordinate better: his main aid effectiveness focus is thus on donor-recipient interactions and how to streamline them.

Sachs and Easterly are often painted as being poles apart, and they are on some issues. Sachs is the leading voice for more aid, Easterly the leading aid critic. Sachs argues for a coordinated approach in which recipient governments would take the lead (in line with the Paris Declaration, discussed in Section 7), whereas Easterly agues for a competitive, decentralized approach: only competition he argues will give donor agencies the incentives they need to lift their game. Collier takes an intermediate position, arguing that donors should coordinate but only work through governments when the governments are up to the task.

But Sachs and Easterly don't disagree on everything. They share in common scepticism about the use of aid to improve governance. Easterly is skeptical about the ability of donors to influence the quality of governance in aid recipient countries, and Sachs argue that, at least for governments above a minimum performance threshold, the binding constraint on economic growth is not governance but investment. Collier is the odd one out in relation to governance. He thinks that donors can and should try to influence recipient country governance, especially through technical assistance: Collier characterizes technical assistance as a high risk, high reward activity. Collier also thinks donors should use conditionality, though in relation to governance rather than policies.

A final introductory note: there is very little which cannot be considered in some way to influence aid effectiveness. This paper casts the net broadly, but largely excludes analysis of the sectoral composition of aid. Questions such as whether aid is best spent on primary or tertiary education, or on roads or health are difficult to answer even in a single country, let alone in more general terms. Nor does the paper consider the issue of total aid volume. Whether more or less aid should be given depends on the views taken in relation to the various effectiveness issues analysed in the next three sections.

5. Improving recipient government performance.

Broadly speaking, there are two approaches a donor can pursue in order to improve the performance levels of the governments receiving its aid. The donor can give more aid to countries which are better performing, or it can try to improve the performance of all its recipient governments. This section analyses these two strategies in turn.

Both the World Bank and the Asian Development Bank now use explicit performance grading systems to guide the allocation of the concessional funds they disburse. These funds are distributed according to formulae which give more aid to countries which are (a) poorer (b) more populous and (c) better governed. In both cases, Bank staff grade countries against various criteria, such as macroeconomic management and corruption. These gradings are combined into an overall performance rating. If there are two countries of the same size and poverty level, the one with the higher performance rating will get more aid funds.

Western bilateral aid agencies have also started to use performance as a criterion for aid allocation. The United States has gone the furthest in this direction with the creation of the Millennium Development Corporation which has explicit governance and other criteria which have to be met if its funds are to be accessed. AusAID has a Performance Incentives program which provides "additional resources to partner governments and service providers linked to pre-agreed performance criteria and milestones being met."[11]

Better performing countries do get more aid, at least by some measures. In 2004, among low-income countries those classified (by the rating system mentioned above) as having 'very low' government capacity received less than half aid per capita of those countries with 'high' capacity: $30 versus $70 (World Bank 2007, Table 4).[12]

But the aid industry has also come to recognize the limits of disbursing aid on the basis of performance. Even in the World Bank system, India's access to concessional aid is capped. Application of the formula-approach would result in much greater concessional aid for India. Aid to India is capped to promote aid flows to Africa, presumably since the latter is seen as being in greater need, and unable to attract as much private finance. More generally, sentiment has shifted in recent years in the direction of providing not less but more aid to countries with weakly performing governments. Not only are these the poorest countries, but, some argue that, given the anti-development nature of their governments, only aid can provide an external stimulus for change (van de Walle 2005).

[11] www.ausaid.gov.au/budget/budget07/budget_incentives.pdf

[12] It is unclear if the comparison includes India, which is a relatively well-governed country which receives very little aid per capita.

Moreover, weakly-performing states can impose costs on others (Collier 2007). All this has led to a more proactive and interventionist approach towards such 'fragile' or 'failed' states.[13] In the case of Australia, this shift can be seen most clearly in the case of the Solomon Islands. Up to early 2003, despite significant deterioration in law and order in the Solomon Islands, Australia ruled out its intervention, on the grounds, in the words of the then Australian Foreign Minister, that '(f)oreigners do not have answers for the deep-seated problems affecting the Solomon Islands' (Downer 2003). But in June 2003, Australia set up the regional assistance mission for Solomon Islands, RAMSI, which stabilized the situation in the Solomon Islands, and which continues to the current time to underwrite law-and-order and support development.

Aid agencies have reconciled on-going and in some cases increased support for poorly-performing countries with a belief in the importance of good governance by making more use of the second strategy to improve the levels of government performance among aid recipients: using aid itself to promote good governance. For example, aid spending by Australia on governance increased from 9% of the total in 1996-97 to 36% in 2005-06 (AusAID 2005, p. 14).

There are four main ways in which aid can be used to improve government performance: three of them are well-established, and the fourth new. Of course, the motive for improving governance is not only that it will improve aid effectiveness but also, and more importantly, that it will improve development effectiveness.

The first is through technical assistance. Technical assistance aims, through the provision of experts and training, to build the capacity of national staff and institutions and to deliver technical services, in a wide range of areas from engineering to health to financial management. Technical assistance constitutes about 25% of official aid on average, and up to 50% in the case of Australia (ODE 2008).

A second way to improve the performance of the recipient government is through the use of conditions and provision of incentives. Whether or not aid is allocated on the

[13] Take the case of USAID for example: "USAID will turn its attention toward failed and failing states, which the President's *National Security Strategy* recognizes as a source of our nation's most significant security threats—international terrorism and proliferation of weapons of mass destruction… [T]o prevent human suffering and protect our national security, we must devise bold, new approaches to arrest the slide of weak states toward failure." (From USAID's 2004 *Performance and Accountability Report.*)

basis of performance, donors might set up conditions which need to be met before that allocation can be accessed. This is standard in the use of budget aid (that is, aid not tied to any particular expenditures), though, as noted earlier, this form of aid makes up only about 5% of OECD aid. Conditions are sometimes also used in aid earmarked for particular expenditure areas. The Global Fund to Fight AIDS, Tuberculosis and Malaria makes later-year funding for its programs dependent on earlier-year performance. Output-based aid – where aid is paid only if and when results are delivered – has also gained in prominence, with its promotion by the Global Partnership on Output-Based Aid.

A third and perhaps the oldest way to promote governance is through demonstration effects (Collier 2002). If an aid-financed project, say to build a road, uses transparent tendering and strict supervision and manages to produce a good-quality road for a low cost, this could induce the recipient government to replicate the approach embodied in the project elsewhere in the sector, and perhaps even in other sectors.[14]

A fourth, and much newer governance-promoting tool is for aid agencies to try to generate domestic demand for reform. This might be done by supporting nongovernment organizations which campaign against corruption, or by other forms of support for 'civil society.'

All of these mechanisms have potential but each is also problematic.

The value of donor-provided technical assistance is much debated. Some argue that donors provide too much technical assistance (Reinikka 2008, p. 186), that advisers are all too easily and often ignored, that capacity building is often an elusive goal (AusAID 2008) and that the provision of advisers can in fact 'suck out' rather than build capacity (Fukuyama 2004). Others have argued that technical assistance is only effective in support of reforming governments (Collier 2007). Many governments certainly look to donors to provide technical assistance. The market for consultancy advice is not well-developed in many developing countries, and especially not for international advice. Countries do not know to whom to turn, and would often find it difficult to negotiate

[14] A good example of this comes from China where World Bank projects are credited for the more general use of international competitive bidding by the Chinese governments (Burki 2005, p. 140).

with expatriate experts and to justify and finance the salaries they command within their normal budget process. They often find that their own procurement processes are cumbersome and would lead to enormous delay in the hiring of consultants. For small and fragile states, expatriate staff are required not so much as to build as to provide capacity: both the private and the public sector of such countries will be reliant on imported skilled staff into the indefinite future.

The efficiacy of conditionality is also much debated. Threats to withhold funds if conditions are not met may not be credible since donors are under pressure to disburse. Most studies 'conclude with scepticism about the ability of conditionality to promote reform in countries where there is no strong local movement in that direction.' (World Bank 1998, p. 51). Case-studies (Howes, et al. 2008; Devarajan et al. 2001) show that conditionality can be effective at the margin, but also confirm that "policy formulation depends primarily on domestic policy-economy factors" and not on external leverage (Devarajan et al. 2001).

Innovative practices introduced through projects can have a profound effect, but there is no guarantee that they will work, let alone be replicated. Even if they are, they may make little difference to performance if other, more fundamental governance problems are not tackled, such as the prevalence of corruption. These problems may themselves overwhelm the pilot projects.

Finally, strengthening civil society is another difficult task. Too much donor support can undermine the legitimacy of non-government organizations, leaving them open to the accusation that they are serving foreign interests. And countries with weak governments typically have weak civil societies.

One general challenge facing all these methods is the 'governance paradox,' first applied by Steedman (1995) to technical assistance. Steedman argued that 'The greater the constraints posed by governance related factors, the less likely it is that attempts to reform the systems of the latter … will succeed.' This doesn't only hold for technical assistance. It can also be argued that poorly-performing governments are less likely to adhere to conditionalities, are less likely to be able to learn from demonstration projects, and are less likely to be open to influence from civil society. If so, then aid for governance will be least effective where it is most needed, in low-governance environments.

Some argue that donors should altogether give up attempts to improve governance. William Easterly and Jeffrey Sachs, the two best-known commentators on aid, disagree, often violently, on many subjects, but both share this opinion and call for aid to be directed to specific sectoral projects (see Box 1) with more concrete aims, such as getting more children vaccinated and into school. It is unlikely that this advice will be taken. There has been a rethinking in relation to conditionality, where a new emphasis on the importance of ownership has led to a downplaying of the use of this tool in recent years (see the discussion in Section 7). The emphasis on technical assistance, and the actual results obtained from attempts to strengthen civil society will continue to generate debate and research. While there might be adjustments at the margin, donors are unlikely to give up efforts to improve governance, both because the potential pay-offs are so large, and because these efforts are often demanded by recipients, who seize on aid as a vehicle for reform.

Aid effectiveness discussions and aid allocation decisions would certainly benefit, however, from a greater realism about what can be achieved by aid in respect of governance. Recall that aid in most countries is a small percentage of GDP, and so has limited influence. Where aid is a large percentage of GDP, it is typically in dysfunctional environments, where government effectiveness is undermined by underlying social problems which are not easily addressed, such as instability and plundering politicians. We know that aid can in some cases prevent state collapse (consider the experience of Solomon Islands where external assistance not only to the police but to the central ministries of government have been critical in getting the government functioning again after the social conflict early this decade). For states not in collapse, aid can have an impact on the margin on government performance, but in general domestic institutions are likely to have far more influence on the effectiveness of aid than aid will ever have on the quality of domestic institutions.

6. Improving donor agency performance

As noted earlier, donor programs are ruled by multiple objectives. Clearly, the less the extent that poverty reduction is the dominant objective of any donor agency, the less effective it will be with regard to that objective, which is the focus of this paper. Beyond this obvious point, why should donor agency performance be a general cause of aid ineffectiveness? Most bilateral donor agencies are part of developed country governments, and multilateral agencies are funded by such governments. In general, developed countries have relatively well-performing governments. However, aid agencies are different from other government agencies in at least three respects. These are the focus of this section.

The first way in which aid agencies are different is that the normal feedback mechanisms which serve to discipline domestic government agencies do not work in the case of aid (Easterly 2002; Svensson 2008). Taxpayers in the donor countries have little knowledge and perhaps little interest in the efficiency of aid spending.[15] The intended beneficiaries (the overseas poor) have a strong interest in but again may have little information and certainly have no direct political influence over aid agencies. Their only influence is typically through their own government, and the pressures it can exert, but, even for a strong domestic government, the indirect nature of this link must weaken the feedback mechanism.

This weakening of the feedback loop implies that, everything else being equal, one would expect less of a performance orientation from aid agencies than from the average domestic government agency. Easterly (2002, abstract) describes the symptoms of this in devastating terms, arguing that aid agencies:

(a) define their output as money disbursed rather than service delivered, (b) produce many low-return observable outputs like glossy reports and 'frameworks' and few high-return less observable activities like ex-post evaluation, (c) engage in obfuscation, spin control, and amnesia (like always describing aid efforts as 'new and improved') so that there is little learning from the past…

There have been many calls in recent years for greater attention to performance monitoring and evaluation (for example, Bannerjee & He 2008), and some progress in this direction. Australia has been a leader with the creation within AusAID of an Office of

[15] Non-government organizations have a strong interest in development. But they are often a large recipient of government funds, and they also want to build the aid constituency. Both of these factors constrain their willingness to evaluate government aid programs.

Development Effectiveness, and the commitment to produce an Annual Review of Development Effectiveness. The 2005 International Development (Reporting and Transparency) Act requires the UK Department for International Development (DfID) to produce a similar annual report of its aid allocation and effectiveness.

While such reforms help build a performance culture, they do not substitute for independent evaluation. The multilateral agencies have structures which make it easier for them to support independent evaluation. They all have evaluation offices which report not to the president of the agency but to the board, which represents the shareholders. This provides the evaluation offices with independence from management. Bilateral aid agencies have a different structure, with management reporting to a political head, such as a Minister. But politicians have little incentive to support independent monitoring and evaluation since any negative findings could be used against them, and/or could undermine public support for aid. Private aid agencies find independent evaluation even more threatening, since they fear a negative report will hurt fund-raising efforts.

How to subject aid (non-government and government) to a greater dose of independent evaluation is one of the great challenges facing the aid business. More rigorous and sometimes independent impact evaluations are now being undertaken and promoted more widely: a number of new agencies have been set up to promote them.[16] Another route would be to encourage aid organizations at least to disclose more information to the public to make it easier for external evaluations to take place. The value of improving disclosure was recently recognized by donors at the 2008 forum on aid effectiveness in Accra (discussed in Section 7). The Accra Agenda for Action (AAA) included a commitment by donor agencies, through the International Aid Transparency Initiative (IATI), to 'publicly disclose regular, detailed and timely information on volume, allocation and, when available, results of development expenditure.'

Even if it is agreed that a greater performance orientation is needed, the appropriate performance focus needs to be determined. It is clearly necessary though not sufficient to monitor inputs and processes. If internal quality processes are not adhered to, it is

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[16] See for example the new International Initiative for Impact Evaluation
http://www.3ieimpact.org/index.php

unlikely that quality results will be achieved. Beyond that, the main debate centres around whether individual projects or broad sectoral or country programs provide the appropriate focus for evaluation efforts (see the discussion in Section 7 for more on this debate). The intermediate view perhaps makes most sense: both are important, and monitoring and evaluation should be done at both the activity and the program level.

The second way in which aid agencies differ from other domestic agencies is in the breadth of their coverage. Domestic agencies have a national or sub-national geographical coverage, and usually focus on just one sector, say education or health. Aid agencies have to work across many countries and many sectors. This inevitably imposes a much higher knowledge burden on aid agencies, and gives rise to the risk that these agencies will lack the knowledge to intervene effectively.[17]

Aid agencies have adopted a number of reforms to try to respond to this knowledge challenge. Many have devolved operations to field offices, and hired local staff, both, in part, to build local knowledge. Both these measures are also likely to reduce staff turn-over which undermines knowledge accumulation. Hiring of thematic experts also strengthen the sectoral knowledge base and some donors have moved in this direction. Another way to respond to the knowledge burden is to try to reduce it by being more selective, that is, reducing the sectors and countries in which the agency operates. Though often talked about, there is unfortunately no evidence yet that selectivity is improving among aid agencies.

The knowledge burden can also be reduced by the type of interventions supported. Lancaster (2002, p.96), drawing on USAID experience in Africa concludes that 'where goals were relatively simple and technologies were known (or learned quickly) and brought tangible benefits to Africans in a relatively short period, they had greater success and sustainability.' Projects were 'less successful when they involved a complex set of activities or behavioural or institutional changes' (p.95).[18]

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[17] "… donors tend to know relatively little about the societies or institutions in which they are trying to bring about change. Most aid officials spend a few years in any one country. Few speak local languages … To help bring about behavioural or institutional change in foreign environments, it is imperative that the agents of change be deeply knowledgeable about that environment." (Lancaster 1999, p. 493)

[18] 'We know how to build roads; we know how to organize and help manage elections. Far less is known about generating a demand for family planning services, helping small farmers expand their production or

A third difference between aid agencies and domestic agencies is the enormous discretion in aid agency activities: there are so many ways in which aid agencies can fulfil their mandates. There are good arguments to work in every poor country, and in every sector, and on every cross-cutting issue. There is little by way of rigorous calculus that can guide these choices. The resulting discretion gets exercised at both the political and administrative level. It results in a very large number of activities since there is a good argument for doing everything and the tendency is to do a little of everything. Discretion thus increases complexity and fragmentation and results in agencies working in more countries and sectors than is optimal. In the United States, the Congress earmarks funds extensively to specific areas. The U.S. Foreign Assistance Act of 1961, as amended, specifies 33 goals, 75 priority areas, and 247 directives (Radelet 2003, p.3).[19] Many aid programs also suffer from the discretion exercised by their political leaders during visits to recipient countries. Such visits often result in new projects to generate goodwill abroad and positive publicity at home – commendable objectives, but their pursuit in this manner adds to complexity and fragmentation.[20]

A number of mechanisms would reduce discretion, including greater operational independence for aid agencies, less political involvement in day-to-day aid decision making, the use of standardized approaches to aid programs across countries, and, above all, greater selectivity, through the adoption of subobjectives which are narrower in scope and within easier reach than an overriding goal of global poverty reduction.

7. Improving the productivity of donor-recipient interactions

Even if recipient governments and aid agencies were both high performers, the effectiveness of aid could still be hampered by the way in which they interacted. According to a recent World Bank report, 'the average number of donors per country rose from about 12 in the 1960s to about 33 in the 2001-2005 period.' (2007, p. ii). At the turn of the century, the average bilateral donor operated in about 100 countries

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improving the accountability of newly elected governments. Very little is known about how effectively to strengthen judiciaries, civil society organizations or the civil service. Yet much of what foreign aid tries to do at present is activities, like these, involving institutional or behavioural change.' (Lancaster 1999, p. 493)

[19] http://www.cgdev.org/content/publications/detail/2920

[20] Collier (2007) notes that Clare Short when secretary of state for international development delinked 'disbursements of aid from her own visits,' but puts this forward as the exception that proves the rule.

(Acharya et al. 2006). Donor fragmentation has likely worsened since then, with any shifts in the direction of country selectivity more offset by a greater number of donors.

The move to whole-of-government approaches to aid delivery has further exacerbated the problem of fragmentation. In the case of the United States, the world's largest donor, the main aid agency, USAID, is responsible for less than 40% of total aid, and, according to the analysis of Brainard (2006) some 25 agencies pursue some 50 development objectives, most of them independently.

Not only the number of donors but the number of projects has also been rising. Comprehensive data is difficult to obtain, but a database of OECD aid-financed projects indicates a rise from 20,000 in 1997 to 60,000 in 2004. The same database shows, somewhat surprisingly, given the rise in total aid volumes in recent years, a fall in the size of the average project or activity, from about $2.5 million (pg. 25) to about $1.5 million over the same period (World Bank 1997). (Countries rated by the Bank as having 'very low' governance get on average half the aid of those in the 'high' governance capacity but almost exactly the same number of projects.)

This worsening fragmentation implies a growing waste of resources on the part of both donors and recipient governments, and in particular a major burden on poor and over-stretched governments. Tanzania is a widely cited example in this regard:

> "Tanzanian government officials had to prepare about 2,000 reports of different kinds to donors and receive more than 1,000 donor delegations each year. These requirements tax rather than build provider organizations' limited capacities distorting efforts towards satisfying donor obligations rather than reporting to domestic policymakers." (Reinikka 2008, p. 185)

Health is perhaps the most fragmented sector, with some 100 multilateral health agencies as well as probably all bilaterals active in this area. The results of this over-crowding include resource misallocation (in particular, HIV/AIDS receiving far more funding than is warranted given its importance as a disease)[21] and more importantly an

[21] In Rwanda, where donor grants make up about half of government spending, HIV/AIDS funding receives 46 times the spending on childhood diseases, even though infant mortality is arguably a far more serious problem (World Bank 2008).

overwhelming of government: many specialized government managers are attracted away to better-paying donor-funded health projects; those left behind spend much of their time dealing with these same projects.[22]

In addition, the larger the number of donors, the more difficult donor coordination is. Leaving donors to "do their own thing" can undermine governments as donors come to be seen as responsible for basic government services and more generally for taking development initiatives.

The Paris Declaration of 2005 is both a recognition of and response to the problems in the way the business of aid is conducted. Signed on March 2, 2005 by 35 donor countries, 26 multilateral donors, 56 recipient countries, and 14 civil society observers, the Declaration is arranged around five themes – ownership, alignment, harmonisation, development results and mutual accountability – with obligations under each of these for both donors and recipient governments. The core of the Declaration, in particular as it imposes obligations on donors, is in relation to two of the above five themes, namely alignment and harmonisation.[23]

The vision of the Paris Declaration is that all donors would come together to act jointly under government leadership. This requires both harmonization (of donors) and alignment (behind the recipient government).

Harmonization requires first of all greater selectivity, or as the Declaration puts it a 'more effective division of labour'. Those donors which remain engaged in a particular country or sector should act jointly, through such means as joint projects, joint assessments, and joint missions. Though not mentioned in the Declaration, greater harmonization would also require donor countries to tackle fragmentation within their own aid program, either by returning aid-delivery responsibilities to a single agency, or

[22] There is a serious risk that weak human resource and systems capacity at central and local levels may be overwhelmed by the proliferation of multiple GHPs [Global Health Partnerships] (and other HIV/AIDS initiatives), each with its separate demands.' (DFID study on health, p.5]

[23] As can be seen from the performance framework for the Paris Declaration, the first theme, ownership, imposes obligations primarily on recipient countries to 'take charge' of the development process. The fourth theme, development results, again imposes obligations primarily on recipient countries to put in place national performance assessment frameworks. The final theme, mutual accountability, obliges both recipient countries and aid agencies to assess together their progress in meeting the obligations of the Declaration.

by ensuring at least that one agency has a clear leadership role in the delivery of aid. This would imply a greater status for the aid agency, for example, by giving it Cabinet-representation at the political level, an arrangement which is uncommon but not unheard of in the aid world today. (In the UK, DFID is represented in Cabinet by the Secretary of State for International Development.)

Alignment requires donors, acting jointly, to act under government leadership. Specifically, this means that donors would expend their funds not through their own projects and Bank accounts, but through government systems, and accounts. It also means that donors would not pressure governments to reforms they are keen on, but would rather help governments implement reforms they have already decided on.

Progress with respect to the Paris Declaration was recently assessed at the follow-up October 2008 Accra, Ghana meeting of donors and recipient governments, which produced the Accra Agenda for Action (AAA). This largely reinforced Paris principles, though with a new emphasis on transparency and disclosure (Section 6).

Realization of the Paris Declaration vision would constitute a revolution in the aid world. Donors have been promising better coordination for decades (Easterly 2003), with little to show for it. A 2008 official review reports mixed progress, and notes a paucity of data and limited political buy-in (Working Party on Aid Effectiveness, 2008). The Declaration's targets are ambitious: for example, that 90% of donors should use in-country procurement and financial management systems (where these are rated by donors to be satisfactory) and that 66% of aid should be programme-based. It is unclear what the baselines are, but they are surely well below these targets. An evaluation of the UK DFID states that 'DFID has already achieved most of the Paris Declaration targets, and there is no reason why it should not achieve the remaining targets by 2010.' (Ministry of Foreign Affairs of Denmark 2008, Annex 7.17). However, at the other extreme, the United States, the world's largest donor, persists with tied aid (under Congressional mandate), refuses to use in-country procurement systems, and is also very reluctant to use national financial management systems. The recent DAC review of Australian aid paints a 'mixed picture' for Australia with good performance 'in areas like joint donor approaches and aid untying' but 'weaker results in its use of partner country systems, the share of aid flows channelled through partner country budgets and its reliance on parallel project units.' (DAC 2008, p. 19).

Some aspects of the Paris Declaration command universal support, such as its support for devolution and selectivity. But others are more controversial. One counter-suggestion is that the aid business would benefit not from greater coordination, which smacks of central planning, but from more competition. A

more structured competition between donors would see, for example, poor individuals or communities in developing countries being given aid vouchers which they could use to contract development services from accredited providers of their choice (Easterly 2008; see also Klein & Harford 2005). Donors do something like this through their Social Funds, which provides flexible aid to poor communities. Scaling up this approach would nevertheless be radical as it would challenge the role of the aid staples: technical assistance, program aid and budget support.

A less radical alternative to gift vouchers, but one in the same spirit, is the suggestion that that donors should work around recipient governments, rather than trying to fix them or act towards them in a more coordinated, less-taxing way. This strategy would see donors increasing their funding to the private sector, non-government organizations and the provision of global public goods (such as medical and agricultural research). While not a substitute for harmonization and alignment, it is a strategy that deserves a lot more attention. A 2006 statement by the heads of the European Investment Bank, and the German and French aid agencies to the IMF reported that 'an increasing number of development partners today acknowledge the importance of channeling more resources, more directly, toward the private sector.' (De Fontaine Vive et al. 2006).

One off-cited risk with the Paris Declaration approach is that putting funds through government systems in poor countries might mean greater loss of funds due to corruption and greater delay than if they were expensed through donor systems (Svensson 2008). It was noted earlier, for example, that some governments prefer donors to procure technical assistance directly since it is simpler and quicker for them. This is a difficult issue, with no clear answer. Even judged on the issue of corruption and leakage alone, the result is unclear, since, even if it makes individual interventions more vulnerable, working with government systems enables donors to put more pressure on and resources to governments for their improvement. And so, even if leakage does increase, it might be worth it, for the reduction in transaction costs. On the other hand, the Paris Declaration itself recognizes that alignment might not work so well in fragile states.[24] For example, the Paris performance targets require use by donors of partner government procurement and financial systems *only* if these systems are rated to be satisfactory (with reference to a specific performance rating system). For donors themselves, fears about corruption are doubtless the main barrier standing in the way of greater alignment. Some donors take a middle ground, with funds going through partner systems, but with additional safeguards. But this can result in the worst of both worlds, with additional bureaucratic requirements for little by way of benefits. Perhaps the best one can say is that donors certainly should try to strengthen government systems, and procure government involvement in their projects, but will sometimes need to fall short of actual reliance on those systems.

Another unintended consequence of the Paris Declaration could be weakening of performance orientation. The Declaration takes donors away from specific, discrete projects in the direction of broad, often sectoral programs, which can be harder to evaluate. Views are divided on this trend away from projects. There are those who argue that a greater focus on project-level evaluation is essential for donor accountability. Bannerjee (2007) agues 'we need to go back to financing projects and insist that the results be measured.' Easterly concurs that what is needed is 'not overall sweeping evaluations of a whole nationwide development program, but specific and continuous evaluation of particular interventions' (2006, p. 194)

However, there are strong arguments against a projectized approach. First, not all interventions are amenable to rigorous evaluation: technical assistance in particular falls into this category. And project-level evaluations do not capture the wider benefits and costs of aid. A number of projects taken together might have an aggregate effect: perhaps, on the positive side, promoting reform; or, on the negative side, overwhelming

[24] The Paris Declaration states that 'While the guiding principles of effective aid apply equally to fragile states, they need to be adapted to environments of weak ownership and capacity and to immediate needs for basic service delivery.' (para. 37) The Declaration calls on donors still to harmonize but notes that alignment may not be possible. (para. 39). The 2008 Review notes: 'The Declaration's relevance is perhaps strongest in low-income countries that receive large amounts of aid, and combine significant capabilities with strong political leadership that determinedly pursues development objectives... By contrast, in some situations of fragility, important features of the Declaration are of doubtful relevance.' (p.23)

host governments. Collier (2002, p.2) argues for this reason that 'project-level performance is an inadequate instrument for attaining donor objectives,' and that aid should be assessed at the country level.[25] Second, the project-approach is also ill-suited to donors supporting governments with long-term recurrent funding to fulfil core responsibilities, such as road maintenance and schooling. Third, the project-approach takes no account of the fungibility critique: namely that donor funding of one intervention can simply shift government funds elsewhere.

Finally, the Paris Declaration's downplaying of conditionality might help promote domestic government responsibility for reform but, by reducing donor pressure for them, may make reforms harder to implement (Lancaster 2002). In this area, as with the issue of working through government systems, the Declaration gives donors considerable wriggle room: it calls on them to '[d]raw conditions wherever possible from a partner's national development strategy.'

8. Conclusions

That there are so many factors which influence aid effectiveness which might give the impression that it is highly unlikely that all obstacles will ever be successfully negotiated, and that aid could ever be effective. But this would be misleading. As set out in Section 2, it is impossible to give a definitive answer to the question: is aid effective? There are certainly many productive ways to spend additional aid, and aid volumes are likely to continue to rise. This in turn makes the question of improving aid effectiveness all the more important.

The starting point for this paper is the performance of the recipient government. But even if the mainstream position is accepted that this is the most important determinant of aid effectiveness, and indeed of development success, the extent to which donors can influence this determinant is both limited and unclear. Withdrawing aid from poorly governed countries is an attractive strategy, but one that can only be pursued within limits. None of the strategies to improve the governance environment within which aid is expensed have a proven track- record in low-governance environments: from the use of technical assistance and conditionality, through to the use of demonstration impacts

[25] Collier (2002, p.2) writes of the 'hopelessly small perspective of the project mentality.'

from individual projects and the generation of demand for reform. The potential rewards from attempting to improve governance are so high that donors will continue to invest resources in this direction, but the limits of donor influence over recipient performance also make it imperative to look at other strategies to improve aid performance.

The second determinant of aid performance is the performance of the donor. The paper has argued that overseas aid agencies may perform worse than domestic aid agencies because: they are less subject to performance feedback; they face a greater knowledge burden; and they are high-discretion organizations. The strategies to respond to these weaknesses are: a greater performance orientation, in particular independent evaluation; greater selectivity; devolution and other efforts to expand sectoral and country knowledge; the use of simple and standardized interventions; and greater operational independence for aid agencies.

The third determinant of aid effectiveness is the way in which recipients and donors interact, and in particular the problem of donor fragmentation. Donors can reduce the burden on recipient governments by being more selective, by ensuring coordination of their own agencies delivering aid, and by working more through alternative channels, including non-government organizations, multilaterals, the private sector, and international public good providers. In line with the Paris Declaration, donors should cooperate much more, and find appropriate ways to allow governments to influence and direct their programs, even when this has to fall short of working through government systems.

It is evident that some strategies influence more than one determinant of aid, and thus involve either synergies or trade-offs. Selectivity emerges strongly as a strategy that will positively affect all three determinants (on the first, assuming that the selectivity is in favour of better-performing governments). Devolution also emerges as a strategy that will positively affect both the second and third determinants (since it improves country knowledge and facilitates government- donor coordination). Two strategies, however, clearly involve trade-offs. The alignment and harmonization agenda of the Paris Declaration takes donors away from the use of individual projects and their own systems, and thus makes it harder to make them individually accountability for results, and *may* make aid more susceptible to corruption by forcing reliance on less-robust government systems. Likewise the move away from conditionality under the Paris Declaration *may* make it harder to promote governance and policy reforms.

Aid effectiveness is subject to many and complex determinants, the most important of them beyond the reach of donors. There are no magic bullets, there is no aid revolution just around the corner, and international progress in improving aid effectiveness will continue to be slow. There is, however, plenty of room for improvement.

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