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Developing a Methodology
for Assessing aid effectiveness
– an options paper

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1.3 Introduction

The Center for Global Development's Commitment to Development Index (CDI) contains aid alongside six other factors in assessing the commitment of the governments of developed countries to development. CGD and ODI are interested in building on the success of the CDI to develop a measure for aid effectiveness which will engage policy makers and the media in a more informed debate about this important issue.

This paper briefly examines the state of debate about aid effectiveness before proposing five possible approaches to developing an aid effectiveness measure. Each of these measures is described and a range of criteria are used to assess which provide the most sensible way forwards.

The objective of developing an enhanced aid effectiveness measurement is to improve individual donor effectiveness by rating and ranking them against their peers. The focus is firmly on the donors and not on recipient countries.

1.4 What is aid effectiveness?

There is no consensus about how to define the term 'aid effectiveness' either in the literature or amongst practitioners. This is for a number of interlinked reasons. Firstly, different agencies have very different objectives for the aid they provide, and most have a mixture. Objectives range from economic growth, achievement of the MDGs or other social indicators, and the reform of policies and institutions through to foreign policy objectives, promotion of trade, the protection of global public goods, or the promotion of human rights for example. This mix of objectives, both between and within agencies, obviously makes the development of a measure of aid effectiveness which has a broad acceptance and comparability challenging.

Secondly, as the CGD Commitment to Development Index recognises, there are a number of different factors that influence development outcomes beyond the provision of aid. Determining the effectiveness of an individual agency's aid within the context of this range of positive and negative influences is very difficult.

Finally, different researchers have proposed that aid is effective in countries: where there are good economic policies (see for example, Burnside and Dollar, 2000); where there are good policies and civil war has just finished; in all countries but with diminishing returns; in countries outside the tropics; in countries vulnerable to external shocks such as volatile terms of trade or natural disasters; or in countries experiencing negative export prices (Roodman, 2004). Though attempts have been made to measure aid effectiveness, or quality, by taking account of some of these different factors, the results are sensitive to changes in the sample of countries or period covered. This suggests that the causal relationships proposed are not entirely robust. Another problem with focusing on these factors is that they place the responsibility for aid effectiveness primarily with recipient governments rather than taking account of the actions of donor agencies as well.

Despite these issues, there are a number of approaches which, if taken either separately or possibly in combination, will allow a sufficiently robust measure of donor performance against key elements of the aid effectiveness puzzle to be useful in promoting further debate amongst policy makers. We outline the five possible approaches below. For each we identify the factors which could be included as part of the approach. The relative importance of each factor, its relationship to the overall measure being proposed, and therefore its weighting in relation to the other factors will need to be determined as the approach is developed.

In addition, there are a range of criteria which will need to be taken into account as each approach is assessed for its viability and we have therefore attempted to judge each approach against the following criteria, where relevant:

- *Practicality*, whether the data will be easy to collect;
- *Innovation*;
- *Advocacy value*, whether the approach will it generate stories and hence have media value. Whether the findings of the approach are something that donors can act on politically. Whether there is a constituency to take the findings forwards; and
- *Estimated cost*¹.

1.5 Possible approaches

The aid component of CGD's Commitment to Development Index takes as its basis the total aid given by a government. This is then discounted by a series of factors: proportion of tied aid; total debt repayments; a poverty and policy selectivity measure; and the proportion of small projects. Finally, the index rewards governments for tax incentives to promote individual giving to charity (Roodman, 2006).

We propose four different ways to approach the assessment aid effectiveness. A methodology for assessing aid effectiveness is described for each approach. A fifth approach combining these four approaches is also proposed. Agreement will be needed on whether the measurements generated by each approach of these approaches will have most impact if they are added to the existing aid component of the CGD CDI or not.

¹ The final cost will depend in part on the donor sample size. The costs presented are therefore approximations and should not be seen as representing an accurate budget at this stage, rather the figures provide an idea of the cost of each approach relative to the cost of the other approaches.

The figures have been calculated on the basis of an estimate of how much it will cost to produce the data and final index or product. Promotional costs are therefore not included as they are assumed to be constant, but they will be an important part of the final budget. An estimate of the costs of developing the framework and indicators in the first year has also been provided.

Most of the approaches will benefit from some in-country research to allow cross-referencing and validation of data. A cost for each approach has been estimated with cross-referencing in three countries.

1.5.1 Indexing donor commitment to Paris

The Paris Declaration on Aid Effectiveness (PD) demonstrates that there is broad consensus about some of the factors which are under the control of both recipient government and donor agencies. Taking this as a starting point it is possible to develop a list of factors under the control of donor agencies which could be assessed in order to develop a measure of donor effectiveness (OECD/DAC, 2005).

This list would include:

- donor aid flows reported on budget;
- provision of technical assistance (TA) co-ordinated with national strategy;
- donor use of government procurement systems;
- donor use of country public financial management (PFM) systems;
- number of project implementation units (PIU);
- aid predictability and volatility;
- proportion of tied aid;
- aid flows harmonised through programme based approaches; and
- the number of joint donor missions and analytical work.

Practicality: One of the key challenges in this approach is how to collect the data to allow a robust measurement of donor commitment to the PD to be made. The OECD is already undertaking country surveys to provide baseline data for measuring progress towards the targets laid out in the PD. It is running into a series of challenges, not least of which are definitional issues of terms such as 'programme based' and PIU for example. In addition, collecting the data requires the close cooperation and significant time from officials in both the recipient government and donor agencies (OECD/DAC, 2006 draft unpublished). The OECD/DAC is likely to publish the data generated through the initial country surveys, but no attempt will be made to rank the donors using this. Though the data is therefore likely to be available for analysis by other organisations, the challenges involved in solving the definitional issues and cleaning the data are likely to be large. A note of caution should be given because the OECD/DAC still has to take a final decision about the publication of the data and there is some resistance from some within the donor community.

Given the challenges of accessing data, a programme of work using different methodologies could be developed to measure particular definitions of aid effectiveness.

The DAC databases could be used to assess some of the factors highlighted by the PD. The annual reviews by the Strategic Partnership with Africa and the 2006 evaluation of general budget support might offer further data and insight, but this will be patchy at best. This quantitative data alone will therefore only provide a partial measure of aid effectiveness.

Donor policy documents and procedures could be used to generate additional data about the global policies of individual donors in relation to most of the elements of the PD listed above. There are a number of challenges with the

addition of this data though. Firstly, an acceptable framework would have to be developed within which to collect and analyse the donor policies. Normative judgements would have to be made about the extent to which particular donor policies contribute towards the attainment of the PD targets. The potential for disagreement by agencies which perform poorly under the chosen indicators would be high.

In addition while TA, for example, might be wholly inappropriate in one context, it might be the most effective way of delivering aid in another. The data generated through examination of donor policies and procedures alone will not take account of the extent to which aid delivery by donor is applicable to the country context.

Combining both the data analysis and the analysis of donor policies with the involvement of a panel of experts responsible for moderating the score based on their experience would provide one way of significantly reducing criticism as a result of these last two challenges, but the final score will suffer requiring an element of informed perception to moderate this. The methodology will not allow a detailed score of activities on the ground to be made.

A final addition to enable a better understanding of context to be developed would be in-country research. By undertaking interviews with donors and recipient country government officials the final score could be further informed by a better understanding of how donor policies operate on the ground in different situations.

Innovation: Though the OECD/DAC is already preparing a baseline survey of donor performance against the PD, it will not publish scores for individual donors. This approach should therefore offer a new angle on how well different donors are doing against their commitments.

There is also considerable interest within both the donor community and amongst many recipient governments in the PD which would give this approach further mileage.

Advocacy: One of the difficulties in adopting this approach is that, though donors are broadly engaged in the PD and in meeting their commitments, the agenda set by the declaration itself is very technical. It will not be easy to explain to interested journalists why individual criteria are important. So, although it might be possible to generate human interest stories around the number of days individual ministers and civil servants spend dealing with missions from individual donors, interesting them in the technical aspects of procurement, PFM systems, proportion of TA against national strategy etc will be much more challenging. Combining this problem with the issue that much of the data is likely to come from HQ policies rather than data collected in country will make this more difficult to sell to journalists effectively. Packaging the index within the context of how well donors are living up to their commitments under the PD will be important to maximise interest.

Estimated cost:

First year set-up costs = £15,000 (\$29,000)

Total first year costs = £59,000 (\$113,000)

Total first year costs with in-country research = £93,000 (\$176,000)

1.5.2 Indexing donor value for money

A second approach would be to focus instead on the internal policies and procedures of each donor agency in order to understand how well they adapt their approach to different contexts and hence provide value for money.

Key criteria would include the extent to which:

- staff incentives reward progress on aid effectiveness;
- staff training builds understanding and capacity to deliver aid effectiveness agenda;
- authority is devolved to the country office;
- evaluation is used and built into the programme and strategic planning cycles;
- procedures are simplified;
- procedures are adaptable to allow their harmonisation with other donors;
- decision-making procedures are transparent; and
- governance mechanisms allow the participation of beneficiary groups or their representatives;

Considerable work will be required to develop these criteria into robust indicators which allow clear and appropriate differentiation between the policies of different agencies. Placing the choice of criteria within the theory of organisational effectiveness will be important.

Practicality: The approach will rely primarily on analysing the HQ policies, procedures and guidance notes of individual donors against the indicators which are developed.

The presence of appropriate policies on paper will provide useful and interesting data to allow predictions about how well different donors are likely to be able to adapt their aid delivery mechanisms to different country contexts. It is certainly possible for an approach like this to create significant pressure for change within organisations that engage with the process (New Economics Foundation, 2003).

This approach could be strengthened by cross-checking the data generated against the implementation of key policies in-country. This cross-checking of the data could be carried out in one of two ways. The first would be to undertake research in small number of different country contexts to examine the extent to which these key policies are actually implemented. The second would be to replicate the method proposed for the first approach and form a group of experts to draw on their experience to moderate the scores generated by the analysis of the paper policies.

The practicality of this approach will rely on the willingness of donor agencies to provide the relevant documentation as well as access in country if such cross-referencing is added to the approach. The work of the Consultative

Group to Assist the Poor (CGAP) in assessing donor effectiveness in the provision of microfinance through the use of peer reviews suggests that, in principle at least, this approach is viable (Duflos et al., 2004)

Innovation: The value of this approach is that, by analysing the potential of each agency to understand and react to the country context more appropriately, there is less need to take account of the country context, though cross-referencing the data generated by the paper exercise with data gathered in country would significantly strengthen the approach. Though there have been some studies of organisational accountability and effectiveness there have been none that have focused on bilateral as well as multilateral donors as a coherent group. In addition, none have focused on the range of factors proposed here (see for example, One World Trust, 2003; Scott, A., 2005; One World Trust, 2006 forthcoming).

Advocacy: By focusing on value for money rather than the actions of recipient governments, this approach of examining donor effectiveness will provide a new angle on the aid debate. This can be expected to generate significant media interest in donor countries, particularly as stories of best and worst practice will be generated. It should be possible to identify former staff members to talk about the effects of their agency's policies on the behaviour of the organisation. If augmented by in-country visits, further stories will be generated about the effects of different donor behaviours on poor people. Finally, this index should generate significant interest from elected representatives as it will allow them to develop a deeper understanding of how their own agency operates in relation to its peers and this could be a powerful force for change.

Estimated cost:

First year set-up costs = £22,000 (\$42,000)

Total first year costs = £76,000 (\$155,000)

Total first year costs with in-country research = £123,000 (\$234,000)

1.5.3 Surveying government perceptions of donor performance

A completely different approach has been undertaken by Debt Finance International (DFI). Working with HIPC countries, they have designed an objective framework to analyse donor policies and procedures. This framework is used by government officials to develop an internal ranking of individual donors based on the framework. The aim is to help these countries to identify which donors the 'best' for their purposes. The framework contains the following indicators:

For policies:

- Types of assistance: budget/balance of payments support, project, TA or food/commodity
- Channel of assistance: via the budget or off-budget
- Sectors and projects: support is for PRSP or donor-led priorities
- Flexibility of assistance: can aid be channelled to new areas and/or used to meet unexpected financing gaps arising from economic shocks

- Predictability of assistance: multi- or one-year commitments and whether they are fulfilled
- Policy conditionality: the number and degree of enforcement of policy conditions
- Policy dialogue: the degree of donor engagement in the economic policy dialogue and independent support for government policies or alignment with Bretton Woods Institutions.

For procedures:

- Conditions precedent: the types and degree of enforcement and the disbursement delays arising in meeting these conditions
- Disbursement methods: via cash direct to the budget or reimbursement claims
- Disbursement procedures: the number and complexity and disbursement delays arising
- Procurement procedures: the number and complexity and disbursement delays arising
- Co-ordination: the degree of harmonisation between government and donors/creditors.

Practicality: Since the adoption of the PD, DFI has added a number of indicators drawing on the declaration. They now have a large dataset of recipient country perceptions of donor performance against these criteria. This dataset is not available in a form which would enable the analysis of an individual countries ranking of specific donors because there is obvious sensitivity on the part of the countries to be seen to be criticising donors. But, global rankings of donors have been generated in what is a relatively robust dataset (Johnson et al., 2004; Johnson and Martin, 2005). DFI is interested in exploring with CGD and ODI how their data might be used in other ways. One issue is that the dataset only covers the HIPC countries; it therefore does not cover Asia for example. One challenge is that this approach requires significant time and resources to generate the data. DFI carry-out initial workshops to train government officials, in countries with low capacity this can be a time intensive process. Further relatively long workshops are required for government officials to score and rank donors.

Given the power dynamic, there is also considerable sensitivity on the part of recipient countries to be seen to be ranking their donors. DFI will never release the ranking of donors from an individual country. What it has done is released the global ranking of donors across the HIPC countries (Johnson et al., 2004). This data contains considerable interest, but does not allow any differentiation between the way that donors operate in different contexts, for example. DFI does bring a number of assets though including its relationships with many recipient governments and its experience of carrying out this methodology.

Innovation: The challenge from the perspective of CGD and ODI is how to complement the work of DFI in a way that adds value. While DFI is interested in potentially collaborating with the two organisations to expand the dataset beyond the HIPC countries, each individual survey is relatively expensive, see

below. There is also likely to be some sensitivity to carrying out a ranking exercise for the sole purpose of creating an index if there is not also ongoing work to enable countries to use the results effectively.

A lighter touch perception survey starting from scratch will be very difficult to organise. Recipient country officials and CSOs lack the capacity to engage in depth in such a survey. In addition, trust will be important to develop if realistic perceptions are to be extracted. It is hard to see how this trust could be generated on the available initial budget for this initiative.

The DFI data will offer us the opportunity of cross-checking results from the other measures that are proposed above. In particular, it would be interesting, for example, to check the measure of donor value for money against the DFI rankings. A donor which has good policies for adapting its operations to different contexts would be expected to have a higher ranking on the DFI perception survey. This may reduce the need to carry out extensive in-country work.

Advocacy: As with the first approach examining donor commitment to the PD, the criteria in this approach are technical and potentially difficult to communicate to the media and interested non-experts, particularly for the 'policy' criteria.

Estimated cost: Even in a country with significant government capacity, it is likely to cost \$120,000 per new country to train the relevant officials in the methodology and hold the workshops to carry-out the ranking. This rules out using this approach alone, though teaming up with DFI to use their current dataset to validate other approaches would be possible as explained above.

1.5.4 Assessing the steps required to access aid

The economist Hernando de Soto's influential work provides the inspiration for the next approach. De Soto analysed the steps, and the length of time for each step, required for entrepreneurs to establish a formal business. His analysis highlighted the key blockages which prevent the establishment of businesses and inspired the World Bank to carry out an annual Doing Business Report investigating the regulations that enhance business activity and those that constrain it, and ranking countries accordingly (de Soto et al., 1986; World Bank, 2006).

Adopting this approach to the delivery of aid appears to offer real attractions. Once it has agreed its national strategy with the donor community, a recipient government has to undertake a variable number of steps depending on the donor and aid modality required. These steps, which vary in length and complexity, can tie up significant government capacity and resources for the poorest countries as they attempt to access development assistance. The methodology for this approach would be to identify a small number of countries chosen by using a range of agreed factors. By using donor policies and guidance, combined with interviews in-country, the number and length of time for each step would be worked out. This would be used to calculate the average length of time it takes each country to access financial assistance. The data generated by this approach could be strengthened by examining

recipient government preferences for aid modalities against the instrument portfolio of each donor. The DFI rankings of how well donors meet government preferences for aid delivery could be used to add further definition to the results. Discount factors could also be added into the measurement to capture data from the DAC databases.

Practicality: Donors use a variety of instruments and aid modalities. The initial challenge would be to construct a framework that allowed comparability of the data between individual donor operations at the country level as well as between different donors. Some forms of aid will be inherently easier for donors to agree and deliver than others, general budget support (GBS) vs project for example, yet some donors do not provide a significant amount of programmatic aid such as GBS. Any framework developed would have to deal with this, which would probably require discount factors for less desirable forms of aid to be developed.

The second practical challenge will be data collection as this will require country level work to analyse the steps required to access aid. This will add considerably to the overall cost of this approach. The expense of this approach will mean that a small sample size is inevitable. This will limit the extent to which claims about the data in relation to donors' global operations can be made, but the fact that no claims can be made about the universal applicability of the data should not weaken this approach in the way that concerns about the data in the other approaches could.

Innovation: No attempt to undertake this type of analysis for the aid world has been undertaken before. Indexes are becoming fashionable advocacy tools so this approach has the added advantage of presenting the data in a new way.

Advocacy: Despite concerns about the limited validity of the data, this approach should have considerable media appeal if the case study country or countries are chosen well. De Soto has already demonstrated that research of this type carried out in only one country, Peru, can have global impact (de Soto et al., 1986)

Estimated cost:

First year set-up costs = £18,000 (\$34,000)

Total first year costs = £72,000 (\$137,000)

Total first year costs with in-country research = £118,000 (\$225,000)

1.5.5 Combination approach

Each of the approaches highlighted above suffers from a number of challenges, not least of collecting high quality data for enough criteria to differentiate between different donors sufficiently without relatively extensive in-country research. Without this in-country research, the advocacy value of each approach is reduced considerably.

A stronger approach would be to take each of the above approaches in turn and identify the data which is available without in-country research. In doing this an overall measure of aid effectiveness can be developed as follows:

$$AE = f(AV,CPD,VM,P,T)$$

Where:

- AE = Aid Effectiveness;
- AV = Net Aid Value (the current measure of aid in CGD's CDI);
- CPD = a measure of a donor's commitment to the PD;
- VM = a measure of donor value for money;
- P = the DFI perception data;
- T = a measure of the length of time it takes to access aid; and.
- f = a function linking the values of AV,CPD,VM, P and T to the overall AE index (e.g. a weighted summation).

It will obviously be important when developing this approach to ensure that specific indicators, tying for example, only appear in one factor of the final measure to ensure that double counting does not occur.

Practicality: The value for money measure aside, the rest of the data for the other measures should be relatively easy to collect from existing datasets if no in-country work is undertaken. For the initial index, considerable work will have to be undertaken to build a measure for value for money from donor policies and procedures and this would be strengthened significantly by undertaking interviews in selected countries with both donor and recipient government officials, but once this has been carried out, the work should be considerably easier given the rate that policies can be expected to be updated.

We noted in section 1.3 above that there are significant problems with existing policy and poverty selectivity measures, including those within the current CDI aid measure. Further work could be done to examine the impact of changing the policy and poverty factors used on the overall measure generated. This would help to examine the robustness of the data generated.

Innovation and Advocacy: This would be the first approach of which we are aware to try to bring together the various strands of the debate about aid effectiveness into one measurement. The approach draws on the strengths of each individual approach and should generate a ranking and a number of 'stories' which the media will be interested in. By focusing on a number of different factors of aid effectiveness it should allow significant definition between donors to be made.

Estimated cost:

First year set-up costs = £30,00 (\$57,000)

Total first year costs = £89,000 (\$168,000)

Total first year costs with in-country research = £134,000 (\$256,000)

1.6 Conclusion

Each of the individual approaches suffers from being a partial measure of aid effectiveness. In addition, in order to strengthen their validity, extensive in-country research will probably be advisable. In contrast, the strength of the combined approach is that it includes all of the most important factors in the

aid effectiveness puzzle. With a few exceptions, the data for most of the factors is available from existing datasets. Taken as a whole, this reduces the need for in-country research.

That said, the fourth approach, assessing the steps required to access aid, if enough time and money is invested into it, would appear to offer a realistic chance of drawing out interesting data which could put pressure on donors to examine their policies and procedures. The strength of this approach will depend on the financial investment.

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