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# Applying Evaluation to Development and Aid: Can Evaluation Bridge the Micro-Macro Gaps in Aid Effectiveness?

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# **Applying evaluation to development and aid: Can evaluation bridge the *micro-macro* gaps in aid effectiveness?<sup>1</sup>**

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## **Abstract**

Donors and governments in aid recipient countries are under pressure to demonstrate effectiveness of aid, especially due to increasing stress on fiscal balances in the context of the global financial and economic crisis. The evidence on aid effectiveness remains mixed at best: while individual targeted aid interventions appear to produce positive results, the impact of aid at the macroeconomic level remains limited. Furthermore, the reporting on concrete outcomes of aid interventions remains inadequate, thus perpetuating doubts around aid effectiveness. This paper discusses these micro-macro gaps in aid effectiveness and the reporting problem. It proposes some ways in which well-designed and carefully implemented evaluations can help bridge these gaps, and how better reporting and transparency on aid results can advance the aid effectiveness agenda.

## **1. Introduction**

There is growing pressure on donors and recipient governments to demonstrate effectiveness of aid. In donor countries, tax payers demand tangible proof of the use of the tax money channeled through national aid agencies and multilateral institutions. This pressure has been exacerbated by the adverse impact of the global financial and economic crisis on donors' fiscal balances. At the same time, populations in recipient countries are increasingly openly demanding for tangible development outcomes, more transparency in the management of aid, and better access to reports containing systematic and objective assessments of aid effectiveness. Along with increasing

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democratization and free press in developing countries, governments face a growing pool of educated but disfranchised youth demanding for genuine improvements in living standards.

These growing pressures and demands for transparency and aid effectiveness are further fueled by criticisms ranging from analysts arguing that aid has no robust impact on development, to activists who are overtly opposed to aid on various grounds. Furthermore, the complexity of the development process makes it difficult to track the impact of aid, which is influenced by many factors arising from the donor side, the recipient's context and exogenous factors. In addition, the aid industry is a congested market where multiple actors pursue similar goals on the same terrain, making it even more difficult to sort out the incremental impact of aid interventions.

Nonetheless, evidence shows that development aid has produced substantial positive results at the micro level, whether at project or program level. Well managed programs have yielded improvements in school enrollment, access to health care, reforms of tax systems, and other valuable outcomes. However, at the aggregate level the record remains very mixed, fueling the debate about overall weak aid effectiveness. Bridging the micro-macro gap remains a critical challenge for the development aid community and national policy makers.

These practical challenges, criticisms, gaps between micro and macro outcomes, and domestic political pressures on donors and recipient governments for more transparency on aid, call for more effective mechanisms of analyzing, monitoring, evaluating, and dissemination of concrete impacts of aid on development; that is, there is a call for better aid effectiveness evaluation. While there has been substantial progress in evaluation methods and practice, important gaps remain and there is room for improvement. Moreover, the dissemination of the results of impact evaluation remains inadequate, contributing to perpetuating doubts about aid effectiveness. This paper argues that well-designed and implemented evaluations as well as better dissemination of evaluation results can help shed light on these gaps in aid effectiveness. The paper thus emphasizes two problems: the dichotomy between micro-level and macro-level aid effectiveness; and the lack of transparency and inadequate reporting on the concrete impacts of aid. Both problems contribute to the overall unease surrounding aid effectiveness in the aid community as well as in recipient countries.

Following this introduction, the paper provides a brief review of the mixed record of aid effectiveness in Section 2. Section 3 highlights the problems at the origin of the micro-macro dichotomy in aid effectiveness. Section 4 discusses the role that evaluation can play in bridging these gaps, and Section 5 concludes.

## **2. Aid effectiveness: a less than stellar record**

### **2.1 A backdrop of rising aid volumes**

The debate on aid effectiveness and evaluation is taking place in the context of an upswing of aid flows to developing countries. Following a steady decline in the 1990s, total aid by the Development Assistance Community (DAC) member countries has increased substantially since the turn of the current century. Between 1990 and 2009, total aid to all developing countries by DAC donors rose from \$119.9 billion to \$165.3 billion, a 37.8 percent increase. Based on the trough levels of 2000 (\$84.7 billion), this represents a doubling of the volumes of aid (Table 1).

In per capita terms, the upward trend is most notable in sub-Saharan Africa, Asia and Latin America (Figure 1). The substantial increase in aid from 2000 in these regions has been credited as one of the factors that drove high growth in the pre-crisis period.<sup>2</sup> Aid per capita in sub-Saharan Africa more than doubled between 2000 and 2009, rising from \$24 to \$54. However, the 2009 levels are still below the peak of \$57 per capita reached in 1990.

However, despite the substantial upswing of the volumes of aid over the recent years, the quantity of aid remains inadequate relative to the financing needs of developing countries as well as relative to donors' targets. The High-Level Plenary Meeting on the Millennium Development Goals (MDGs) held in New York in 2010 under the theme of "keeping the promise" soberly lamented the fact that donors had not kept their promise of increasing aid delivery (UN MDG Task Force 2011). The report of the MDG Task Force found that while official aid had reached a record-high of \$129 billion in 2010, this represented only 0.32 percent of the gross national income (GNI) of DAC members. Only five countries have met the UN target of 0.7 percent of

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<sup>2</sup> Various reports by the multilateral development institutions have listed increasing volumes of aid as one of the key drivers of the high growth in Africa during the years leading to the 2008-09. These include the *African Economic Outlook* (by the African Development Bank, the OECD, the UNECA and the UNDP), the UNECA's *Economic Report on Africa*, UNDESA's *World Economic and Social Prospects*, and the IMF's *World Economic Outlook*.

GNI in official aid.<sup>3</sup> The report noted a large gap of \$153 billion in 2010 in actual aid delivery. Aid delivery to Africa in 2010 was \$15 billion (in 2004 dollars) below the pledges made in 2005 at Gleneagles (UN MDG Task Force 2011, p. 15).

At the same time, developing countries are facing large financing gaps in economic infrastructure and social sectors. It is estimated that Africa faces an annual gap of \$48 billion in infrastructure financing alone. In 2008, the MDG Africa Steering Group Report concluded that for African countries to reach the MDGs, public external financing would need to be scaled up by about \$72 billion per year until 2010.<sup>4</sup> Actual disbursements fall far below these targets.

But most importantly, despite the fact that the volumes of aid to developing countries in general have increased over the past years, the record of the impact of aid on development remains rather wanting. Growth in sub-Saharan Africa remains below the levels needed to reach national development targets; it remains volatile and has generated inadequate job creation. The credit given to aid for stimulating the recent resurgence in growth in Africa is often exaggerated. Over the long-run, the gains from growth are limited. In terms of GDP growth, as can be seen on Figure 2, growth elasticity of aid has been low and flat. The recent upswing in aid has only yielded a short-lived spike in ‘aid dividend’, reverting to a stagnant mean.

The gains from aid in terms of social development are also less than satisfactory. While aid has supported important national programs in education and health, the overall impact remains inadequate. The deficiencies are most notable in the case of Africa, the region pointed out as having received relatively higher volumes of aid. Infant mortality has declined much slower in Africa than in the other developing regions (Figure 3) and many African countries are not likely to reach the MDG target for this development objective.

## **2.2 Disputed evidence at the macro level but more encouraging results at the micro level**

Although the debate on aid effectiveness has heated up in the recent years, efforts to assess the effectiveness of aid date from as far back as the 1960s (Roodman 2007a). Doucouliagos and

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<sup>3</sup> The five countries are: Norway (1.10% of aid/GNI), Luxemburg (1.05%), Sweden (0.97%), Denmark (0.91%), and Netherlands (0.81%). (source: OECD-DAC online database).

<sup>4</sup> MDGs Africa Steering Group (2008), “Achieving MDGs in Africa”, New York

Paldam (2005) provide a comprehensive literature review, pointing out ‘sad results’ of four decades of research on the theme. Over the years, the work on aid effectiveness has been reviewed several times, with conclusions ranging from extreme optimism to quasi-militant pessimism.<sup>5</sup> But the literature shows a clear demarcation between the findings at the macro level where the results are very mixed and results at the micro level where the evidence is much more encouraging regarding the gains from aid. The sections below discuss the evidence at the two levels in turn.

### *Mixed evidence at the macro level*

The ultimate objective of aid is to contribute to improved economic performance and the wellbeing of the population through the provision of financial resources and technical assistance. Naturally, governments and the public from the donor and recipient countries expect to see improvements in indicators of economic performance and wellbeing as returns to aid. This explains why the attention in the aid effectiveness analysis has been focused on national level indicators, mainly economic growth, health outcomes and human capital development. Implicitly, the analyst assumes, or rather hopes that the impacts of aid at the micro level, where the action takes place, somehow translate into macro level impacts at the national level. But the process of aggregation of micro level outcomes into the macro level impacts remains a black box.

The literature on the macro level impact of aid falls into three camps, with a limited number of agnostics along the spectrum of aid effectiveness beliefs: aid works; aid does not work; aid works under certain conditions (but it works after all). The first camp claims that aid works, and the only concern is that there is not enough aid and that it may not reach the intended recipients. The most vocal advocates in this camp include Jeffery Sachs, who has argued forcefully for a “big-push” led growth financed by scaled up disbursements of aid to developing countries (Jeffery Sachs 2005).<sup>6</sup> Sachs and his colleagues propose that external development assistance can help break the poverty trap and that scaled up aid is the exit strategy from the poverty trap. The following excerpt says it all in reference to Africa (Sachs et al. 2004: 144):

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<sup>5</sup> Key reviews of the literature on aid effectiveness include: Mosley (1980); Hansen and Tarp (2000); Clemens, Radelet and Bhavnani (2004); McGillvray, Feeney, Hermes, and Lensink (2005); Roodman (2007).

<sup>6</sup> See Easterly (2006a) for a critical review of Sach’s argument for a big-push approach to development assistance.

If Africa is caught below the threshold level of infrastructure, and therefore is stuck in chronic low or negative growth, the main policy implication is to raise capital above this threshold ... We propose to increase the capital stock in one step, as it were, through a large, well-targeted infusion of foreign assistance. In other words, we are arguing not for endless flows of increased aid, and not for aid as simple charity, but rather for increased aid as an exit strategy from the poverty trap. For those who fear that aid increases dependency, our response is that aid that is ambitious enough would actually end Africa's dependency. Moreover, we see no other likely successful strategy for ending Africa's poverty trap.

This camp includes analysts who argue that aid has been effective in stimulating growth (see Hansen and Tarp 2000, 2001). Besides the quantitative analysis supporting the aid effectiveness view, there is a large literature from the activist world (NGOs and civil society organizations) calling for scaling up aid.

The second camp argues that aid works, but that it works under certain specific condition. One of the most widely cited study in this group is by Craig Burnside and David Dollar (2000), which claimed that aid works but only in a good policy environment. This study generated a lot of debate and controversies. Some analysts questioned the robustness of the results and the merit of the methodology (see Roodman 2007b for a review). Further investigations refuted the results as too fragile, not robust to sample selection, and subject to particular specification of the empirical model (Dalgaard and Hansen 2001; Easterly, Levine and Roodman 2003). For instance, the interaction of aid and policy, and the particular coding of the good policy indicator are found to be the key drivers of Burnside-Dollar results. Outside of academia the concerns with the Burnside and Dollar proposition were about its policy implications. The proposition implied that aid should go to countries with demonstrated evidence of good policy; that is, aid should be conditioned to good policies. This reopened a can of worms in the debate on aid conditionality. More fundamentally, it meant that given that low-income countries and especially those coming out of conflicts also have weak institutions and policy frameworks, an application of the Burnside-Dollar proposition would leave these countries as aid orphans and trapped into a low aid-poverty vicious circle.

A number of other analysts have supported the view that aid is effective under certain conditions. Noteworthy studies include Collier and Dollar (2004) who argue that aid effectiveness requires

good government institutions. Similarly, Svenson (1999) argues that aid is effective only in democracies. Collier and Dehn (2001) posit that aid can be effective in countries experiencing shocks, but point out that aid effectiveness requires good policies. Patrick Guillaumont and his colleagues argue that aid helps absorb economic and natural shocks, and strongly advocate for allocating official development aid on the basis of economic vulnerability.<sup>7</sup>

Within this strand of conditional aid effectiveness literature, Dalgaard, Hansen and Tarp (2004) controversially suggested that aid works outside of the tropics but not within the tropics! The study is empirically fragile, with the results driven by a few countries with specific features, namely Botswana, Egypt, Jordan and Syria (Roodman 2007b). This kind of conclusion feeds the usual deterministic view of development that tends to attribute underdevelopment to fixed factors such as geography. But this view is tenuous; it fails to explain, for example, why geography would prevent Burundi from developing while Switzerland developed although both countries are landlocked and small.

There is a smaller strand of the literature that argues that aid simply does not work, conditionally or absolutely. Rajan and Subramanian (2005) challenge the robustness of the results in studies that conclude that aid works even conditional on good policies. They conclude that aid does not have any statistically consistent effect of growth and that, even in cases where it may exist, the effect is too small to be statistically observable.

William Easterly argues that aid works only if it is well targeted and aligned with individual country's cultural, social and economic conditions (Easterly 2006b). He is critical of large-scale or grand-scheme types of aid interventions, or what he calls "transformational" approach to aid. The problem is not the money; it is whether the funds are used to meet the specific needs of the intended recipients. Easterly suggests that well-managed aid produces positive results at the micro level in areas such as education and health. He thus favors the "marginal" approach with small-scale targeted interventions (Easterly 2009).

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<sup>7</sup> Guillaumont (2007, 2009, 2010); Guillaumont and Chauvret 2001; Guillaumont and Guillaumont- Jeanneney (2009); Guillaumont and Simonet (2011).



Overall, the review of the literature suggests the evidence on the macro-level effectiveness of aid remains very mixed with no apparent movement towards any consensus. Now we turn to the micro level impact of aid where the results are much more promising.

### *More encouraging evidence on aid effectiveness at the micro level*

The key problem with efforts to document and quantify the effectiveness of aid at the macro level is that macroeconomic outcomes are the result of a multiplicity of factors, many of which are unrelated to aid, and some of which can affect the effectiveness of aid either positively or negatively. Economies are complex systems where virtually everything depends on and influences everything. Disentangling the impact of a single factor such as aid on macroeconomic outcomes such as growth, human capital, health, etc., is a daunting exercise both conceptually and empirically. Moreover, the actions taken today to finance an initiative in a particular country produce macro level results which are observable only several years down the road (Radelt and Bhavnani 2004).

Moreover, and most fundamentally, aid is only an instrument used to achieve ultimate macro level goals. For the instrument to have an impact on the ultimate goal, a long chain of causalities need to hold systematically. A chain is as strong as its weakest link; if one node in the chain of causalities fails, then the final result is compromised. For example, the ultimate goal of aid interventions in education is to increase human capital which in turn would increase growth and generate improvements in overall wellbeing. So donors finance school construction with the hope that the recipient country will reap future benefits in terms of improved human capital and higher growth. However in practice, for the final result to materialize, not only does aid need to be spent and used diligently, but also agents' behavior needs to respond appropriately and significantly along the way. So, effectiveness of aid operates at multiple levels and it is the aggregation of the intermediate levels of effectiveness that determines effectiveness at the macro level. Using the example of aid to education through construction of schools, Roodman (2007a: 2) summarizes some of the questions that need to be addressed, which points to many ways in which aid effectiveness may be compromised: "Was a school built? Did children come? Did they learn? When they grew up, did they have fewer children of their own? Did they find more rewarding and productive work? Did economic output go up? Did poverty or inequality fall?"

For aid to education to have macro level effects, there are too many “ifs” that need to be satisfied. If more schools are built, school attendance will increase, literacy will increase, households will make more efficient decisions regarding matters relevant for their wellbeing, workers (educated) will be more productive, more output and income will be produced and the living standards will increase. Trying to demonstrate empirically each of these causal statements is a monumental task.

One possible solution to the challenge of demonstrating aid effectiveness is to be less ambitious in the quantitative assessment of aid effectiveness and look not at the macro outcomes but at the micro level outcomes; that is, look at narrower goals. Such an investigation typically reveals what Clemens, Radelet and Bhavnani (2004) refer to as a “micro-macro paradox”: despite the disappointing results at the macro level, there is evidence of successful targeted aid interventions at the micro level. At the sectoral level, aid has also been found to be effective, especially in the areas of education and health. Michalowa and Weber (2006) find that aid contributes to increasing primary school enrollment. Dreher, Nunnekamp and Thiel (2007) find similar results. In the area of health, Mishra and Newhouse (2007) find that aid helps reduce infant mortality.

The reality therefore is that the aid landscape includes a mixture of successes and failures. The problem is the aggregation technology of the impact of aid, which is at the root of the fact that the successes have not been able to outshine the failures to produce robust overall positive impacts of aid. There are many reasons for this. Key among these is that the aid enterprise has many structural deficiencies that undermine its effectiveness. These inefficiencies prevent the aggregation of positive results at the micro level into visible positive outcomes at the macro level.

### **3. Problems leading to the micro-macro paradox**

This section discusses succinctly the key structural problems of aid effectiveness that may be at the origin of the micro-macro paradox. The focus is on problems that may be addressed through effective conceptualization and implementation of evaluation.

### **3.1     *A quantity and quality problem***

To the extent that aid effectiveness means development effectiveness, then this has implications for both the quantity and the quality of aid. Regarding the quantity of aid, if aid is to produce positive and visible results at the aggregate level, it must reach a minimum threshold. It has been pointed out in several studies and reports that the current levels of aid remain inadequate. They fall short of the investment gaps faced by developing countries and they are below the OECD targets of 0.7 percent of donor countries' gross national investment.

Various studies have documented large and even growing financing gaps faced by developing countries. In the case of Africa, for instance, it is estimated that to reach the high growth required to substantially reduce poverty, the continent would need to invest about \$93 billion per annum in infrastructure, including \$41 billion for the power sector (Africa Infrastructure Country Diagnostics 2009). Currently only \$45 billion are covered, leaving a gap of \$48 billion, of which \$23 billion is in the energy sector alone.

For aid to generate meaningful impacts at the macro level, the current levels would have to be substantially increased in a predictable manner to fill the investment financing gaps. Higher and more predictable funding would help achieve higher and less volatile growth, and ultimately faster social development. Improvement in aid effectiveness at the macro level is conditional on increasing the volumes of aid delivery.

The quality of aid is also essential for aid effectiveness. Defined in terms of development effectiveness rather than financial soundness or operational/process conformity, the quality of aid raises a number of issues. Among these issues, two of the most prominent are allocational effectiveness and predictability. The challenge of allocational effectiveness emanates primarily from the fact that (1) resources are scarce and therefore donors have to make difficult choices on where to invest these resources; (2) there is inadequate information on effective returns to investment in various activities; (3) and there is imperfect evidence on the key drivers of growth at the country level. As a result, aid effectiveness is constrained by the fact that some resources are allocated to sectors with limited returns to investment and with little impact on growth and development.

The allocational efficiency problems are exacerbated by lack of consistency in the decision making of donors. Overtime, donors change their aid targets and preferences, but it is not always clear whether these shifts are inspired by careful analysis of the expected relative gains from investment in various sectors. So, for example, donors have exhibited a strong bias toward social infrastructure and services, especially since 2000 (Figure 4). In contrast, aid to productive sectors declined since the beginning of the 1990s. As donors focused on poverty reduction as the ultimate goal of aid, the attention shifted to activities and sectors that were deemed closer to this objective, hence the emphasis on social sectors. This shift, however, is problematic. It has been well documented that sustained poverty reduction requires higher and sustained growth and job creation, which in turn requires adequate investments in productive sectors. Ironically, focusing on the poor by increasing spending on social services has not contributed much to reducing poverty. It is by supporting wealth and job creation through strong, sustained and broad-based growth that sustained poverty reduction can be achieved.

The problem of targeting of aid is amplified by ‘herd behavior’ among donors, and the tendency to “follow the winner” in a context of high pressure to show results. Individual donors seek to minimize risks by avoiding untapped terrains and focusing on sectors and activities that have gained consensus among the donor community. Moreover, multilateral development institutions, which are key players in the aid landscape, do not have genuine capacity to set their own targets. They are all accountable to the same governments of member states. Therefore, preferences of dominant donor countries permeate in the strategic decisions of multilateral development institutions, so that preferences of the latter mimic those of the former.

In addition, aid effectiveness is hampered by poor cost effectiveness, notably due to long and cumbersome aid delivery processes. Aid for seeds and fertilizers is of little help when it delivered after the end of the planting season. The high cost of aid delivery is also due to ineffective coordination among donors in a landscape marked by a proliferation of donors and projects. This increases the burden on recipient governments called to execute, monitor, and evaluate multiple projects and dialogue with multiple donors. It is not surprising that some

recipient governments occasionally call for a moratorium on donor missions during particular periods to enable them to run their business.<sup>8</sup>

### **3.2    *Weak additionality of aid***

The limited record of aid effectiveness at macro level can also be attributed to its weak additionality. One of the reasons for the weak additionality of aid is that additionality is not integrated in the planning of aid programs. Additionality of aid can be evaluated at three levels: financial additionality; positive spillover effects into the local economy from aid-funded projects and programs; and technology and knowledge transfer. Financial additionality of aid stems from the role that aid plays in attracting additional public and private resources. From the public side, aid can crowd-in domestic public resources by increasing the capacity to mobilize tax and non-tax revenue. A donor intervention can also crowd-in external public resources by enticing other donors to co-fund programs and projects.

From the private side, aid can play a catalytic role in attracting private financiers or by facilitating public-private partnership funding arrangements. In practice, however, instead of crowding-in domestic public resources, aid often tends to have a disincentive effect on tax mobilization (Ostrom et al. 2001, p. Xviii). Because aid is fungible with other government resources, especially in the case of budget support, high volumes of aid alleviate pressure on the government to mobilize taxes which are politically undesirable.

The ability of aid to catalyze additional public and private resources is also limited because this is not explicitly built into aid programming. When institutions make it an objective for their funds to play a catalytic role, aid indeed can crowd-in substantial amounts of private finance. In the case of the African Development Bank, for example, it is estimated that each dollar that the Bank invests in private sector projects attracts about four dollars from private co-financiers. This practice is not part of the normal business of aid programming among bilateral donors.

Aid projects tend to also have suboptimal spillover effects in the local economy, which limits overall aid effectiveness. Aid programs often remain virtual islands in the economy, thus minimizing their impact at the macro level.

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<sup>8</sup> In Tanzania for example, the government declares a mission-free month during the budget preparation process.

In addition to finance, development assistance can also provide an avenue for the transfer of technological know-how from donors to aid recipients. This in turn would eventually increase productivity in recipient countries, leading to overall higher economic performance. The record of aid effectiveness in this regard is weak. The gains through technology transfer are particularly low in the case of tied aid. Despite calls for moving away from tied aid, it still represents a substantial fraction of total aid for many donors, whether *de jure* or *de facto*. This further undermines aid effectiveness.

### 3.3 *Failure to influence policy and institutions*

There is broad consensus that institutions and good policies are important ingredients for sustained high long-run growth. Yet, the aid community has not made up its mind on whether aid should be used to induce improvements in institutions and policies. For a long time, donors have had it backwards: they have conditioned aid to good institutions and policies. Given that the majority of low-income countries have weak institutions and policies, they then end up receiving less aid. As a result, poor countries are trapped in a stable equilibrium characterized by bad institutions and low growth. Indeed, Birdsall (2007) argues that what is holding African economies into a low-growth high-poverty trap is an “institutional trap”. While growth is believed to be a function of institutions, donors have primarily focused on the direct link between aid and growth, and less on institutions. One of the causes of limited performance of aid in stimulating growth is that little aid has been invested in institutional building and that aid has not been leveraged to improve the institutional framework in low-income countries.

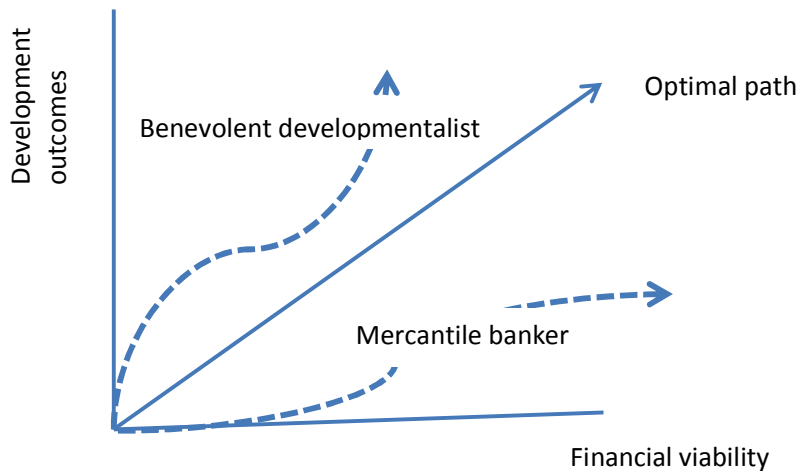
There are reasons for this limited emphasis on using aid to develop institutions. Some of these constraints are political whereby donors put national strategic interests ahead of economic development goals (Killick 1998; Kanbur 2000; Mold 2009). Thus, bad governance in recipient countries goes unchallenged, and even worse is rewarded by additional aid inflows in the name of national strategic interests. On the recipient side, there is resistance against interventions with an institutional emphasis especially in undemocratic regimes under the pretext of national sovereignty. Moreover, there is limited knowledge on how exactly to influence the development of good policies and institutions. Donors know good institutions when they see them, but they know less how to engineer them in a particular country. Furthermore, institutions develop very

slowly and in a complex fashion. This is not particularly encouraging for typical aid agencies who are bound by short term “key performance indicators” tied to short-run results. The lack of patience therefore explains the inadequate investment in institutional building and in the development of capacity to implement good policies.

### ***3.4 Poor alignment of incentives and interests***

Aid effectiveness is also compromised by lack of convergence between the interests of donors and those of recipients. Within donor governments and development financing institutions (DFIs) there is often also lack of consistency between the incentives and interests of the institutions and those of operations officers. Like any investment venture, development aid carries risks. Yet, it is by taking risks that aid can generate the highest rewards in terms of development outcomes. Thus the donor must strike a balance between financial risk and development outcomes (Figure 5). The tendency of program and project officers is to ere on the safe side, minimizing financial risks to demonstrate that money has been used well, thus staying in good terms with internal audit. For development financial institutions, this risk aversion is further motivated by the need to preserve the financial bottom line and good credit ratings. As illustrated in Figure 5, donors face tensions between maximizing development outcome – or behaving as ‘benevolent developmentalists’ – or maximizing financial viability – or acting as ‘mercantilist banker’. In such a context, risk aversion tends to keep aid below the optimal path with regard to development outcomes.

**Figure 5: Development-risk trade-off**



Another way in which incentive incompatibility undermines aid effectiveness is through the pressure to spend the aid budget in the context of the “spend it or lose it” culture of aid budgetization. This practice induces inefficient allocation of aid resources to activities with little development gains. This also explains the low absorption of aid, as large volumes of aid are appropriated to projects and programs but remain unutilized for long periods. The pressure to “move the money” creates allocational as well as management inefficiencies, especially as program officers are evaluated not on the basis of effectiveness but on the basis of approvals. Ultimately, these micro level inefficiencies contribute to the overall weaker effectiveness of aid at the macro level.

### **3.5 Lack of learning**

The challenges described above have been pointed out repeatedly for a long time; yet they continue to permeate the development aid practice. A key reason is imperfection in the learning process in the development aid industry. Evaluation is often not integrated into aid and development policy, and there are inadequate investments in developing evaluation mechanisms. This prevents the development of what Ostrom et al (2001) call “error-correction capabilities” of systems and institutions that prevent mistakes from generating self-perpetuating inefficiencies. Thus improvements in aid effectiveness are conditional to development of effective learning.



The question this paper raises is whether evaluation can help fill this learning gap and, as a result, contribute to bridging the gaps between macro level and micro level aid effectiveness. This question is the object of the next section.

### *3.6 Inadequate reporting and dissemination of concrete impacts of aid*

Even in situations where aid has been effective and produced tangible results especially at the micro and sectoral level, often the results remain unknown to the recipients as well as the public in the donor countries. It is generally observed that Non-Governmental Organization do a better job in publicizing their interventions and drumming up the results of their projects. This somehow explains the relative success by many specialized agencies, and it is consistent with the evidence on aid effectiveness at the micro level discussed above.

The lack of transparency and inadequate dissemination of the results of aid arise primarily from the tradition that aid management is in the domain of the government. In developing countries where institutions of public accountability remain underdeveloped, government operations are not open to the public, and participatory budgeting is not part of the policy and political culture. Thus, while the population is arguably the ultimate beneficiary of aid interventions, it is not systematically appraised of the nature of interventions and their concrete results. It is expected that increased democratic consolidation and the development of free press will lead to more pressure on governments to open up the aid management process, which will result in better access to information on aid effectiveness for the general public. This is key to building political support for development aid.

Moreover, the technical process of reporting of aid effectiveness remains inadequate and it is not systematically integrated into the programming and delivery of aid. Even in donor countries where institutions of public accountability are developed, the general public has inadequate access to reports on the results of aid interventions. Reporting to the general public is often defensive, reacting to criticisms from the media and the research community rather than being seen as an inherent obligation of government aid agencies. This tradition undermines the overall aid effectiveness agenda.

## **4. Evaluation can play a major role in bridging the micro-macro gaps**

### **4.1 Substantial progress has been made in evaluation practice but challenges still remain**

Evaluation is a key component of national aid policy, helping in setting goals and accessing performance. For the USAID (2011: 1), “evaluation is the means through which it can obtain systematic, meaningful feedback about the success and shortcomings of its interventions. Evaluation provides the information and analysis that prevents mistakes from being repeated, and that increases the chance that future investments will yield even more benefits than past investments.” Similarly, the Japanese International Cooperation Agency (JICA) considers that “the primary objective of evaluation is to improve the effectiveness and efficiency of projects by using evaluation results for better planning and implementation” (JICA 2004).

There has been progress in evaluation methods and practice, especially with the introduction of experimental methods in the design and implementation of evaluation. The use of randomized experiments and randomized control trials (RCT) holds promises; they are scientific, objective, and they minimize sampling bias and thus enhance the reliability of evaluation results. These methods also have the advantage of being replicable in various settings (Duflo and Banerjee 2009; Duflo and Kramer 2005). The use of control groups enables the analyst to get closer to establishing a causal relationship between a particular intervention and the targeted outcomes.

But there still are many issues even with the RCT methodology. In particular, limitations of RCTs stem from the fact that the method works well in situations where an intervention is truly discrete and homogeneous across space and time (Bargener and White 2007). This obviously happens in scientific labs, but rarely in real social settings. Moreover, RCTs do not completely overcome the perennial problems of attribution of outcomes in a complex system like an economy where many factors are likely to influence directly and indirectly a particular outcome (Vaessen 2010). Furthermore, randomization may face ethical problems as it requires involvement of groups that are not benefiting from an intervention which they otherwise would have wished to benefit from. In such a context, it is difficult to explain why some groups would only serve as experimentation objects while others are beneficiaries of the aid intervention under evaluation.

Regardless of the particular methodology used, evaluation faces structural problems. Key problems are briefly described here. One frequent challenge in evaluation is often the lack of a clear definition of instruments and targets as well as the exact channels through which the instruments are expected to generate outcomes. This manifests itself in weak logical frameworks of programs and projects. So for example, the logical frame of a road project often lists, among expected impacts, an increase in GDP growth. Certainly there are many intermediate targets between road construction and GDP growth, and unless the entire chain of causation is clearly defined, it is difficult for evaluation to be effective. Moreover, evaluation faces the classic problem of discrepancy between instruments and goals, when too many goals are set with too few instruments. Thus when the evaluation fails to find the expected outcome of aid, it is difficult to know whether the failure is due to bad choice of instruments or bottlenecks in the intermediate causal relationships. This also means that innovations such as the so-called “results-based-management” frameworks cannot be effective without a sound definition of targets, instruments, and transmission mechanisms.

Moreover, without a good baseline and control groups, reasonable relative progress may be misjudged as failure. For example, in a post-conflict country, large improvements in institutional and economic performance are difficult to achieve in the short run. To illustrate the point, in such countries, achieving the MDGs of reducing poverty by half by 2015 may be impossible. But there may be substantial improvements relative to the no-project scenario. In this case, without reasonable evaluation criteria, interventions in such settings are inherently set to fail – the “set to fail” syndrome. Here the recommendation would be to look at not only achievement of final targets but also the extent of efforts and relative improvements. To use a sports analogy, evaluation should seek to crown not only most valuable players but also most improved players.

While all donors consider evaluation as an important tool for aid planning and management, they are nevertheless aware of the possible negative repercussions that stem from negative evaluation results. Unsatisfactory evaluations may jeopardize new aid budget allocations (by Congress or Parliament) and even damage the relationships between donor and recipient governments. On the recipient side, there is a risk that negative evaluations may jeopardize new aid. These risks may cause both an underinvestment in evaluation and delayed evaluations, due to the “fear of the unknown” effect.

## 4.2 How can evaluation contribute to bridging the micro-macro gap?

Well designed and carefully executed evaluations can help establish better linkages between micro level aid outcomes and the macro level impacts. In other words, to the extent that evaluations are well implemented and systematically integrated along the entire operational cycle, they can help optimize the aggregation of project or program-level outcomes into national level impacts. This requires a number of innovations in the way evaluations are designed, implemented and utilized in aid policy. Below are key avenues of possible improvements in that regard.

### *Evaluation as development diagnostics*

Evaluations can help bridge the macro-micro gap to the extent that they are conceived as “development diagnostics” aimed at uncovering the key drivers of intended development outcomes as well as the channels of transmission from the intervention to the ultimate outcomes. This requires deep knowledge of the sectors involved, the specificities of the country and region, including economic and non-economic features that influence the behavior of agents and overall economic performance. Evidently such knowledge does not necessarily have to be generated within a particular evaluation exercise. What is needed is close synergies between applied research and evaluation to make evaluation genuinely knowledge intensive.

### *Comprehensive ex-ante evaluation as decision making tool*

Many multilateral DFIs have endorsed the practice of ex-ante evaluation of development outcomes as a tool for guiding decisions in private sector financing operations. The objective is to identify and attempt to quantify the expected additionality and development outcomes of private sector operations. However, despite the increase in private sector portfolios of DFIs, the dominant lending window remains the public sector. The latter is still not covered by ex-ante evaluation of additionality and development outcomes in most DFIs. Two innovations are needed to harness the value added of ex-ante evaluations. First, these evaluations need to be extended to the entire portfolio of multilateral financing institutions including public sector operations. Second, ex-ante evaluations need to be more comprehensive and address all aspects of development outcomes, including policy and institutional impacts. At the moment, the

analysis on institutional impacts and potential implications for policy is still limited. Yet, this is an area of great potential value added towards improving aid effectiveness and bridging the micro-macro gaps in aid effectiveness.

#### *Evaluation to enhance policy and institutional impact of aid*

As discussed earlier, a major weak link in the aid effectiveness chain is the limited contribution of aid to improvements in policy and institutions. Part of the reason is that it is typically not an explicit goal of aid interventions to improve policy and institutions. This is either because institutions and policy are seen as too sensitive or simply because it is believed that aid cannot meaningfully influence policy and institutions. Yet for aid to be more effective at the macro level, or for micro level interventions to translate into national development outcomes, it is indispensable that donors explicitly incorporate improvements of policy and institutions as part of the goals of aid. It is therefore important for evaluations to pay particular attention on the impact of aid on policy and institutions. Thus, evaluations can help the aid process by identifying the factors that make aid effective in improving policy and institutions, and by uncovering the mechanisms and channels that generate such positive impacts. This requires a rethinking of the design and implementation of evaluation frameworks to beef up the policy and institutional dimensions.

#### *Better integration of evaluation outcomes into operations*

The evaluation functions are understandably typically separated from the lending functions of most institutions and governments. This preserves independence of the evaluator to ensure credibility and reliability of evaluation findings. However, independence carries some costs. It prevents optimal use of the feedback from evaluation in policy formulation and in the design and implementation of operations. Moreover, the feedback from policy design and operations into evaluations is imperfect. Hence the learning is suboptimal, with the risk that errors and mistakes are repeated over time. An evaluation is good only if it informs policy. One way out is to require that program officers systematically demonstrate that past evaluation has been integrated in the design and implementation of new interventions. Explicit requirement to build upon lessons from past evaluations would promote the institutionalization of integration of evaluation into operations.

### *Transparency, participation and public disclosure of information*

For evaluations to serve as an effective tool of aid effectiveness, it is essential to develop a culture of transparency, participation and public disclosure of information in recipient governments as well as in donor agencies and the donor community in general. While most DFIs have established policies on disclosure and access to information,<sup>9</sup> these policies are rarely known by the target public, and they are poorly implemented partly due to lack of adequate resources. Disclosure of information on aid is even less prevalent in many government agencies. The increase in the number of donors is accompanied by growing disparities in the practice of information disclosure on aid, despite calls for donor coordination and harmonization. Yet, public disclosure of information is important to enable the recipient populations as well as the public in donor countries to keep up with the use of aid resources and their concrete impact on development. Thus, transparency and public disclosure of information are key to the aid effectiveness agenda.

## **5. Conclusion**

The debate on aid effectiveness has disproportionately been focused at macro level outcomes, looking at the impact of aid on national development outcomes such as growth, improvements in the quality of life brought about by better education, and the health status of the general population. However, individual aid interventions do not actually affect these outcomes directly. While aid effectiveness at the aggregate level remains unsatisfactory, the aid landscape contains individual success stories at the micro level. The dilemma is how to bridge this micro-macro gap.

The analysis in this paper suggests that increasing aid effectiveness will require improvements at three levels: (1) improved effectiveness of aid at the micro-level, i.e., at project and sector level; (2) more transparency, better reporting and public disclosure of information on development outcomes; (3) better aggregation of outcomes at the micro level into macro level impacts. The paper argues that such an aggregation technology must be knowledge and institutions-intensive. Institutions are critical for not only the quality of outcomes of individual interventions (i.e., micro level effectiveness), but also for facilitating positive spillover effects of individual

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<sup>9</sup> The World Bank Policy on Access to Information dates from 2010; The African Development Bank is at an advanced stage of updating its Policy on Disclosure of Information.

interventions into the rest of the economy. Institutions also facilitate the learning from experience which is essential to improvement in policy design, implementation mechanisms, and overall impact of aid at the macro level.

For evaluations to contribute to bridging the macro-micro gaps in aid effectiveness and help dissipate the clouds surrounding the impact of aid, some innovations in the design, implementation of evaluations and reporting on aid results are essential. First, this requires substantive increase in the knowledge intensity of evaluations. Secondly, it is important to achieve higher systematic utilization of evaluation-generated knowledge into policy and programming than observed in current practice. Third, it is important to both improve the reporting mechanisms and systematically imbed aid reporting and dissemination of results into the aid planning and delivery processes both at the project and program levels.

To achieve these innovations, donors and governments in recipient countries need to put their money where their mouth is: if they believe in evaluation, then they must adequately resource it. This requires investing more in evaluation through higher budgetary allocations. It is also necessary to invest more in building capacity and skills in evaluation both at the donor and recipient country level. Moreover, it is imperative to develop a culture of transparency, openness, and public disclosure of information on aid management both in donor and recipient countries. This will improve accountability and ultimately enhance aid effectiveness.

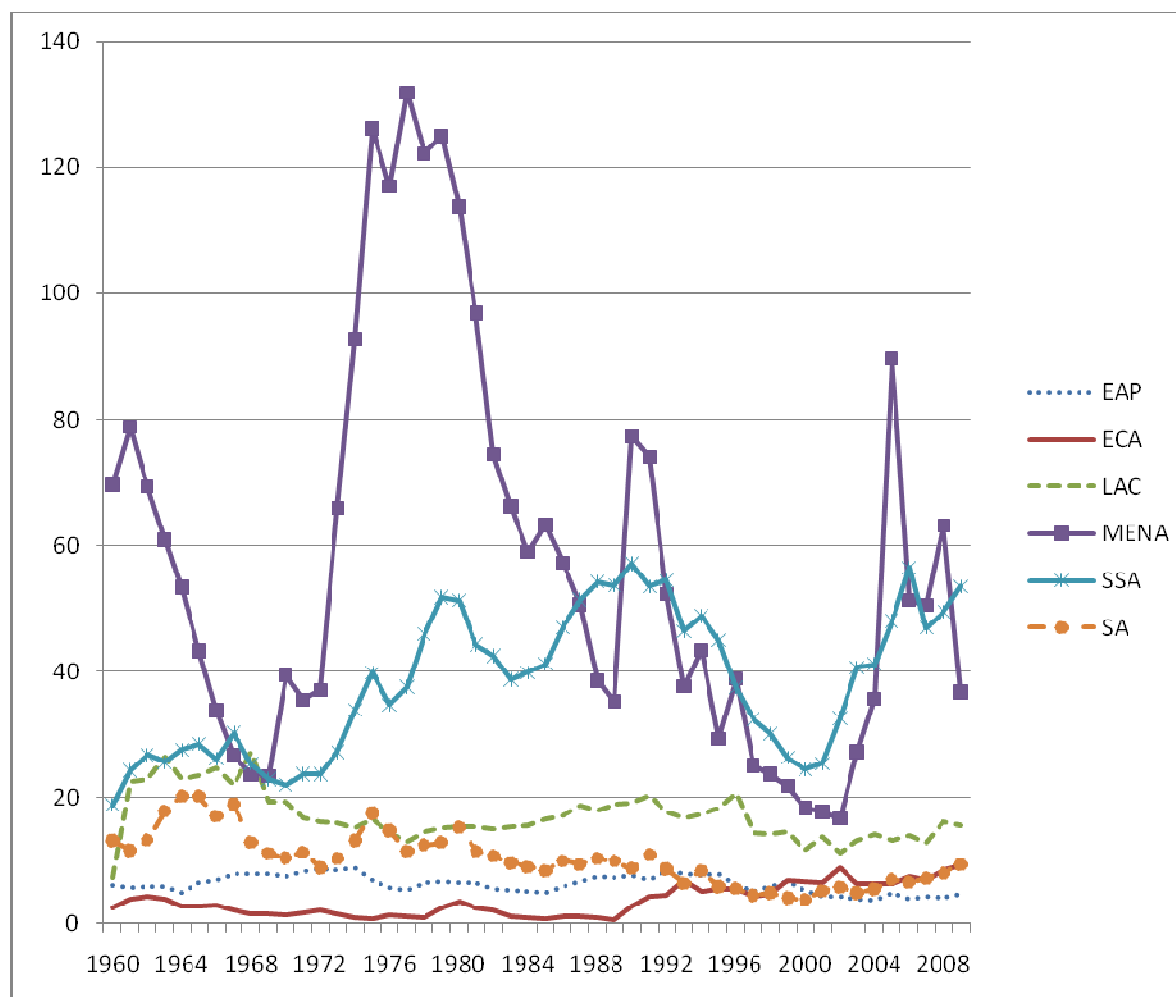
**Table 1: Real annual flows of official aid (constant 2009 US dollars, billion)**

Year	Total	Africa	Latin America	Asia	Europe	Oceania	Unspecified
1960	30.8	9.5	1.6	15.7	2.8	0.2	1.0
1970	44.9	9.3	5.7	18.5	1.0	1.5	1.9
1980	111.4	27.1	5.8	35.3	3.1	2.7	12.8
1990	119.9	41.2	8.6	29.5	2.3	2.3	9.6
2000	84.8	19.2	6.0	19.7	4.6	1.0	11.1
2009	165.3	47.7	9.1	38.6	5.8	1.6	24.9
Change 1990-2009 (%)	37.8	15.8	5.9	30.7	147.6	-26.9	159.1
Change 2000-2009 (%)	95.0	148.7	50.8	95.7	25.0	62.0	122.9

Source: DAC database (online). Nominal values are deflated into real values using the US CPI index.

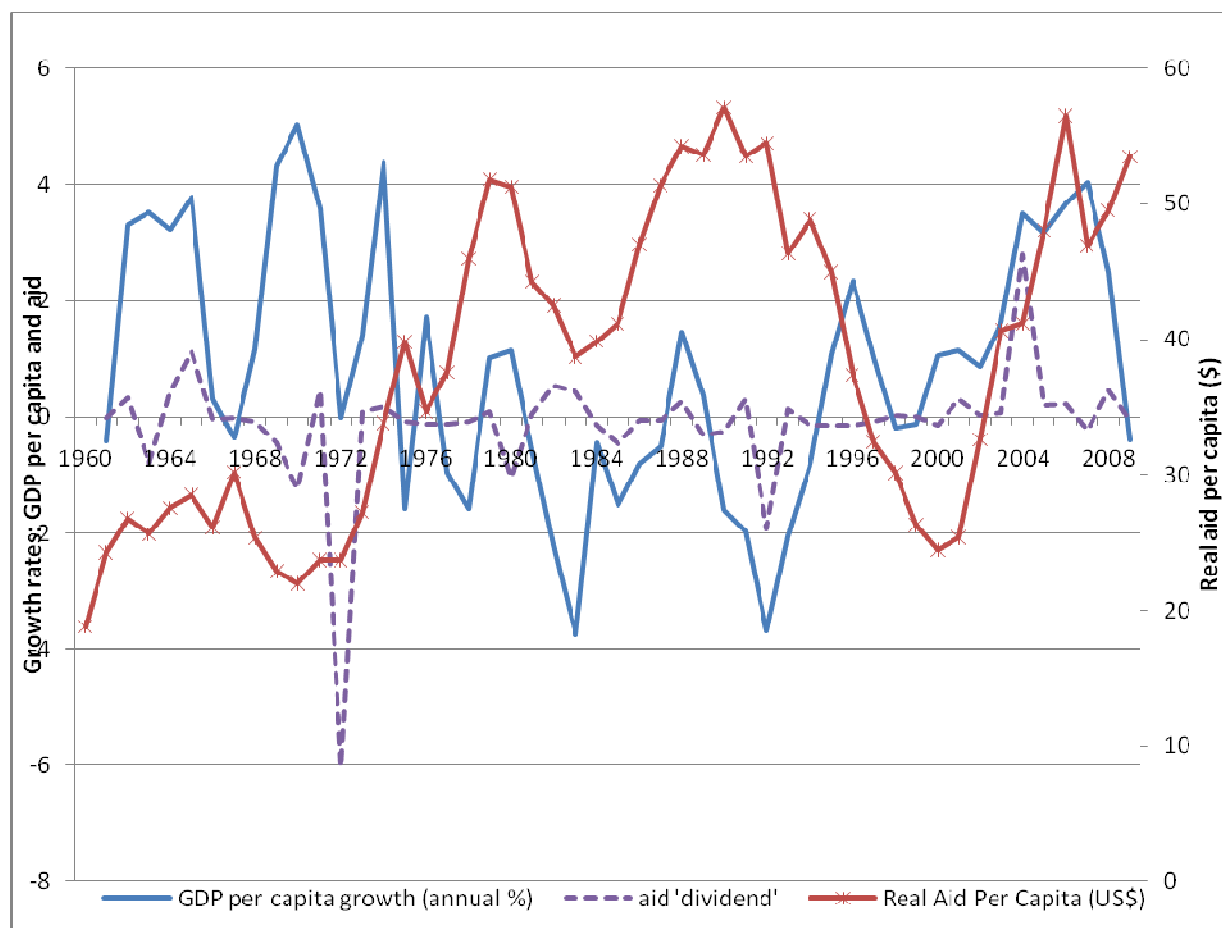


**Figure 1: Real aid per capita by region, 1960-2009 (constant 2009 US dollars)**



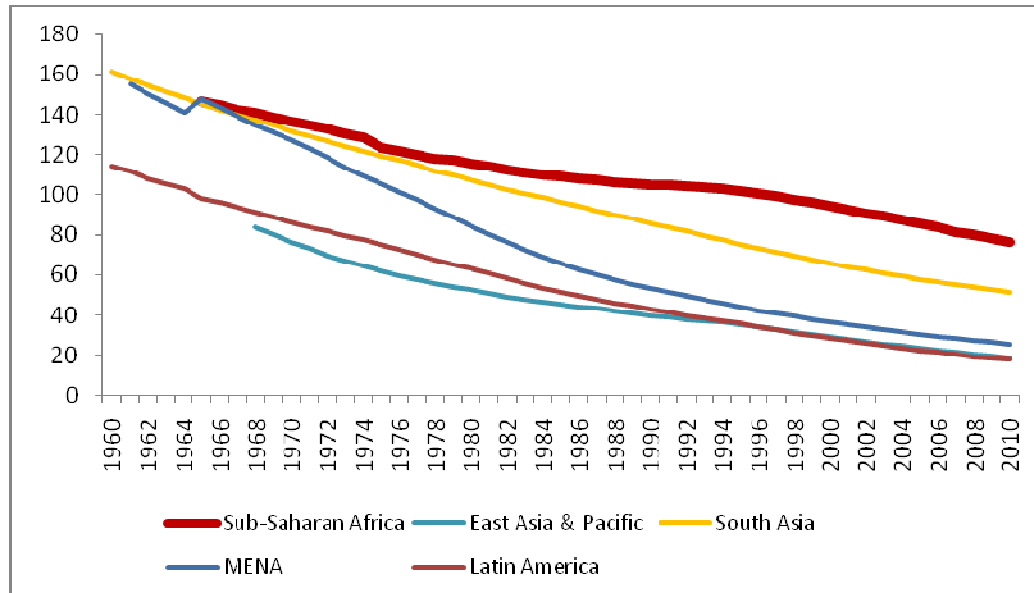
Source: DAC database (online). Nominal values are deflated into real values using the US CPI index. SSA = sub-Saharan Africa; MENA = Middle-East and North Africa; SA = South Asia; LAC = Latin America and the Caribbean; EAP = East Asia and Pacific; ECA = Europe and Central Asia.

**Figure 2: Growth gains from aid in SSA: GDP growth/aid growth**



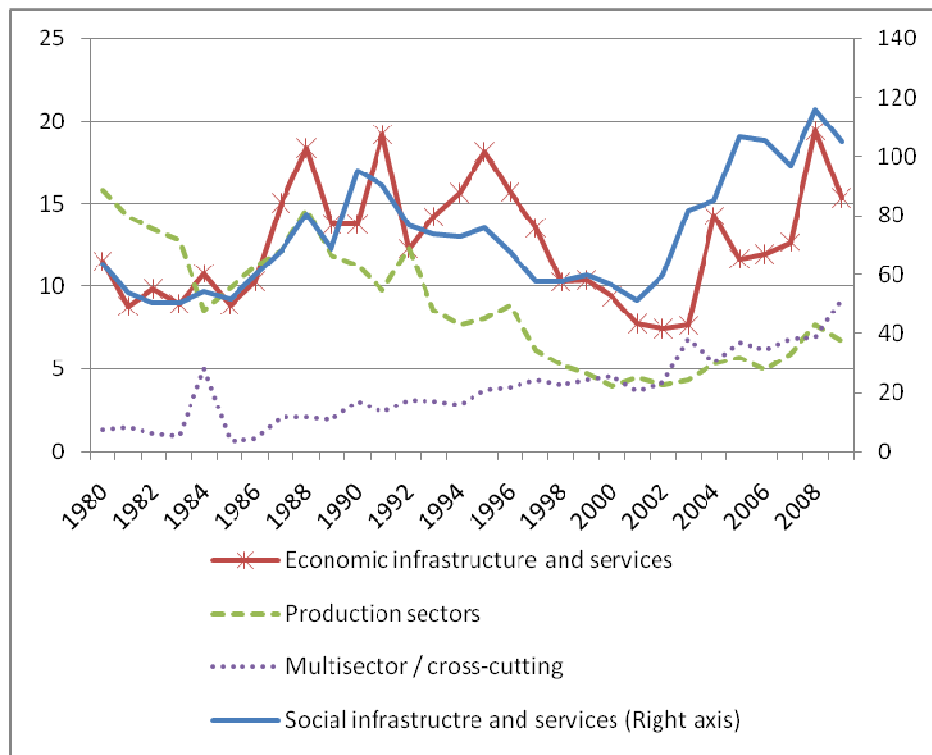
Source: DAC database (online). Nominal values are deflated into real values using the US CPI index. Aid dividend is proxied by the ratio of real GDP growth to the growth rate of real aid per capita.

**Figure 3: Infant mortality by region (per 1000 live births)**



Note: MENA = Middle-East and North Africa.

**Figure 3: Sectoral allocation of ODA (total all donors, constant 2009 dollars, billion)**



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