

Assessing Aid

A World Bank Policy Research Report

Assessing Aid

What Works, What Doesn't, and Why

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Foreword

FOREIGN AID IS AS MUCH ABOUT KNOWLEDGE AS IT IS ABOUT MONEY. Helping countries and communities generate the knowledge that they need for development is a prime role of assistance. And aid itself is a learning business that continually evolves as lessons of success and failure become clear.

Assessing Aid is a contribution to this ongoing learning process. It aims to contribute to a larger “rethinking of aid” that the international community is engaged in—a rethinking in two senses. First, with the end of the cold war, there is a group that is “rethinking aid” in the sense of questioning its very existence in a world of integrated capital markets. In response to this trend, we show that there remains a role for financial transfers from rich countries to poor ones.

Second, developing and developed nations alike are reconceptualizing the role of assistance in light of a new development paradigm. Effective aid supports institutional development and policy reforms that are at the heart of successful development. Though tremendous progress has been made in the past 50 years, global poverty remains a severe problem.

Research into aid, growth, and poverty reduction provides important evidence about making aid more effective. This report summarizes the findings of recent World Bank research on aid effectiveness. The primary research has been published or will soon be published in professional journals. This report aims to disseminate the findings to a broad audience. It should be stressed that there are important aspects of development cooperation that have not been covered by the research. The report restricts itself to areas where we have new findings.

Aid is channeled through a variety of activities that bring a mix of money and ideas. Two key themes emerge in this report. One theme is that effective aid requires the right timing and the second that it requires the right mix of money and ideas.

The timing of assistance is crucial in helping countries improve their policies and institutions. When countries reform their economic policies, well-timed assistance can increase the benefits of reform and maintain popular support for them. Similarly, at the local level, when communities organize themselves to improve services, the availability of aid can make the difference between successful innovation and failure.

On the mix of activities, we find that money has a large impact—but only in low-income countries with sound management. Before countries reform, finance has little impact. Thus, donors need to rely on other instruments to support development in the distorted environments—and the report looks in detail at what is likely to work and what, not.

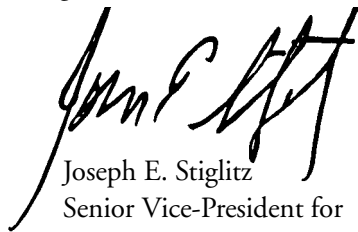
To have a greater effect on global poverty reduction through equitable and sustainable development, foreign assistance requires a three-way partnership among recipient countries, aid agencies, and donor countries.

The recipient countries must be moving towards sound policies and institutions. The active involvement of civil society can help sustain this sound management in developing countries. The good news here is that many poor countries have initiated serious reforms in policies and governance, so that the climate for effective aid is the best that it has been in decades.

Development agencies must shift away from total disbursements and the narrow evaluation of the physical implementation of projects to create high impact assistance. Agencies should be evaluated on the extent to which they have allocated their resources, both of finance and knowledge, to stimulate the policy reforms and institutional changes that improve people's lives. The good news here is that both bilateral and multilateral agencies are transforming themselves and cooperating together to become more effective.

Finally, citizens of donor countries must continue to support aid. The bad news is that just as aid is poised to be its most effective, the volume of aid is declining and is at its lowest level ever. This report is also aimed at persuading developed countries to continue to give aid and to take an active interest in development and development cooperation.

More effective development means improvements in the lives of hundreds of millions of people: more food on the table, healthier babies, more children in school. These are things worth fighting for—and properly managed, foreign aid can make a big contribution.



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The World Bank
November 1998

The Report Team

THIS POLICY RESEARCH REPORT WAS WRITTEN BY DAVID DOLLAR and Lant Pritchett of the Development Research Group. It culminates a research program on aid effectiveness initiated and supervised by Lyn Squire. Original research as background for this report includes work by the authors and by Craig Burnside, Klaus Deininger, Shanta Devarajan, William Easterly, Deon Filmer, Jonathan Isham, Dani Kaufmann, Elizabeth King, Jennie Litvack, Luis Serven, Lyn Squire, Vinaya Swaroop, and Jakob Svensson. The authors draw extensively on evaluations and studies done in other parts of the World Bank, which are cited throughout the text. Much of the underlying research was presented and discussed at the joint OECF-World Bank symposium, “A New Vision of Development Cooperation for the 21st Century” (Tokyo, September 1997). The authors would like to acknowledge excellent research assistance from Mita Chakraborty, Charles Chang, Giuseppe Iarossi, and Pablo Zoido-Lobaton and superb administrative support from Emily Khine, Kari Labrie, and Raquel Luz. Lawrence MacDonald provided helpful support throughout the preparation of the report. Bruce Ross-Larson, with Jessica Moore and Sharifah Albukhary, edited the report for publication.

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