Aid allocation and comparative efficiency of interventions

Bertrand Savoye,
French Development Agency

Though intellectually tempting, the Value for Money approach is very difficult to apply in the allocation of development aid resources. In contrast, simpler approaches could prove effective in the evaluation of interventions and even contribute in orienting the allocation of funding.[1]

Introduction

The sector and geographic allocation of interventions by a bilateral aid agency is influenced by several factors. In France, aid allocation is regulated first and foremost by the goals set in the official development aid policy by the Inter-ministerial Committee for International Cooperation and Development. Since 2013, the following requirements, among others, need to be met:

- at least half of State subsidies and two-thirds of AFD's funding have to be allocated to a defined number of poor priority countries;
- at least 85% of official development funding has to be dedicated to sub-Saharan Africa and France's neighboring countries in the South and the East of the Mediterranean;
- 50% of projects financed by AFD have to come with the guarantee of climate benefits.

Other factors add to this political framework, namely:

- France's international financial commitments made in the past[2];
- consideration of sector positioning of French expertise, or economic interests, which may tend to favor some sectors of intervention;
- quality of governance which may result in renouncing collaboration with certain government departments, and therefore certain sectors, if public procurement rules are not respected or if the expenditure system is not watertight;
- capitalization on lessons drawn from past experiences, including through retrospective evaluations of completed projects that may encourage operational departments to replicate or abandon some interventions[3];
- the backlog of activities in portfolios where results can only be achieved as a consequence of long-term relationships, especially in a post-crisis or fragile States context;
- the positioning of other technical and financial partners (TFPs) in order to avoid overlap and the search for work on areas which may be overlooked by international aid.

It should be noted that "Value for Money" (VFM), or more generally any strategy aimed at optimizing the efficiency of interventions does not feature among the above factors. However, AFD applies a results-based management approach with predetermined achievement rates, or quality rating, which distinguish the

[1]The views expressed in this paper are those of the author and do not necessarily represent those of the French Development Agency.

[2]Thus, the commitment made by France during the 1999 Cologne Summit to step up its bilateral contribution to HIPC Initiative by canceling all ODA debt, a pledge that became effective with the designing of Debt Reduction and Development Contracts, explains why Côte d'Ivoire is now the major beneficiary of financing from the French ODA.

[3]This refers to qualitative lessons that makes it possible to understand past challenges in the low-cost housing or small-scale fisheries sectors, and not to quantitative lessons that may be likened to an efficiency evaluation of interventions.

successful sectors or geographical areas from the failed ones. However, this approach is not used in determining aid allocation.

Limitations of Value for Money approaches

In a context of scarcity of financial resources, why does the VFM approach, which serves to optimize the use of available resources, not feature among these factors, despite the links it establishes between impacts attributable to the interventions funded and costs resulting from these interventions?

The problem is that the VFM approach which helps in bringing the two extremes of an intervention logic closer, namely, the resources mobilized, on the one hand, and the outcomes achieved, on the other hand, presupposes a rigorous assessment of the contribution to these impacts. This analysis can only be done on a limited number of interventions, given the complexity (and the cost) of works resulting from that assessment. In fact, this approach requires (i) a meaningful assessment of costs, (ii) the availability of quantitative data on the selected impact indicators (which presupposes a clear and precise vision of intended goals and impacts), and above all, (iii) the ability, through a scientific impact evaluation (IE) or another econometric strategy, to isolate and assess impacts that are attributable to the intervention or the public policy under consideration.

In the past two decades, these scientific analyses have made remarkable progress, driven by the increased use of experimental methods, and various quasi-experimental methods. They are, however, often costly and difficult to implement because they rely on both the availability of data on the beneficiaries in the area of intervention; and outside the intervention area, on non-beneficiaries. Indeed, Impact Evaluation is still relatively rare in many African countries, although it can reasonably be thought that the situation will improve and be similar to prevailing practices in Asia and Latin America.

Should we therefore, if it is impossible to carry out or rely on rigorous impact analyses, abandon attempts to allocate aid resources based on optimizing cost? To avoid this all-or-nothing logic, often encountered in development policies, we are making some pragmatic proposals somewhat modified from the methodological approach mentioned above, that are likely to serve as warning mechanisms in the event of unusually high costs and at the same time help in better allocating development aid resources.

Comparison of relative efficiencies as an alternative approach

To this end, the proposal is to work on the links of the results chain that connects the financial resources mobilized to achievements and to easily observable outcome indicators, such as the frequency or use of facilities or services financed. We have avoided a "ballistic" approach that consists of directly bringing together the two extremes of the outcome chain and assuming that the same outcomes, or even further upstream, basically achieve the same impacts on the beneficiary population.

However, before pursuing this hypothesis, there is prior verification that the conditions

have been met for it to be considered credible, by integrating the lessons learned from two auxiliary sources, namely:

- A scientific impact evaluation synthesis or meta-evaluation conducted on relatively similar interventions. The work compares outcomes obtained in different contexts. If the same types of outcomes are observed as in the majority of cases within similar geographical regions with more or less similar contexts, it is a presumptive indicator of the validity of the hypothesis. Numerous analyses have already been covered by certain research institutions; like the many analyses carried out by the Abdul Latif Jameel Poverty Action Lab (J-PAL) or the European Stability Initiative (ESI). To respond specifically to an issue that may be insufficiently dealt with by these institutions, a synthesis may be done from existing databases on Impact Evaluation, such as the International Initiative for Impact Evaluation (3ie) database.
- Qualitative evaluations carried out in the domain of intervention and in the same geographical zone allow us to check the causes and effect relationship and thereby judge whether it is reasonable to extrapolate the findings of the Impact Evaluation in this specific context.

If the link between achievements and impacts appears credible considering these exogenous parameters, we can therefore seek to deepen the upstream analysis of the link between means and achievements.

There are two particularly simple yet relevant investigations: the comparative cost analysis per capita, for direct beneficiaries, of certain interventions, and the more common one, which is nevertheless rarely carried out, the comparative analysis of unit cost of certain realizations.

Prerequisites for the comparative cost analysis of projects per beneficiary

- There must be data on the project beneficiary population, or of certain project components. Such relatively simple contextual data is rarely presented in evaluation reports or project documentation; or rough estimates are presented. Indeed, some intervention modalities lend themselves more easily to this type of exercise than others (social facilities more than transport infrastructure, and even more than institutional support components). Furthermore, information is communicated on the estimated beneficiary population of the entire intervention, yet the scope depends on the components of the intervention.
- It is necessary to refer to projects of the same type, even if the approaches are different (for instance, between an integrated approach and financing limited only to infrastructure, whether an implementation agency is used or not, etc.), and within the projects to relatively homogenous components.

Case study

An exercise conducted internally within the AFD, consisted of a rough analysis of nine projects to rehabilitate lower-income neighbourhoods (excluding expenses related to institutional support components) during a given period. The study reveals that cost differences can be

significant. They are three times lower in the project carried out in south-western neighbourhoods of Antananarivo in Madagascar (EUR 83 per inhabitant) than the PK12 neighbourhood project in the Balbala district in Djibouti (EUR 233 per inhabitant).[4] These differences can be explained by various factors related to:

- geography (interventions in small insular economies are often more costly, for example, due to input costs, as well as those undertaken in landlocked territories or in inaccessible terrain);
- project size (projects for small populations are often more costly due to fixed costs);
- socio-political contexts, since risk prevention leads to various additional costs;
- governance of the concerned sector policies and the proper functioning of markets.

Although approximate, this assessment can be useful in understanding at least the average per capita financial input that needs to be devoted to maintenance and upkeep (assuming for example that annual maintenance and upkeep costs amount to about 10% of investments).

Above all, in the absence of development outcome analyses, these observations could contribute to the search for the optimization of scarce resources of technical and financial partners. Assuming that the same achievements produce the same outputs on the beneficiary populations, which takes us back to the downstream analysis of the chains of intervention discussed above, these observations could orientate the allocation of financing provided by technical and financial partners towards more economical interventions.

Resource allocation based on a comparison in absolute terms would be meaningless because it would translate into the systematic allocation of financing to countries with the most efficient project implementation conditions. Conversely, such optimization could be made following the Ricardian reasoning of relative comparative advantages: if an investor were to equally distribute funds between countries A and B, and if the cost ratio per capita in country A is respectively twice higher than in country B for sector X and thrice higher for sector Y, the investor would, following this reasoning, distribute financing between sector X of country A and sector Y of country B. As such, he could motivate sectors Y of country A and X of country B to improve the intervention conditions of technical and financial partners.

The second approach, namely, the benchmarking of various unit costs (a metre of sanitation network, a classroom, a surveyed household, etc.), is not directly related to a value for money analysis. Its aim is to ensure that certain conditions necessary for the efficiency of projects are met. The difficulty is to analyse similar outcomes but the idea is simply to reveal cases of exorbitant costs, in

[4] EUR 86 for the south-west Antananarivo neighbourhoods project (80,000 inhabitants in the early 2000s), respectively EUR 106 and EUR 105 for PNRQP 2 and 3 in Tunisia (550,000 and 492,000 inhabitants), EUR 133 for the PADQP in Ouagadougou (about 100,000 inhabitants), EUR 195 for the RHP programme in Algeria (calculated in the project evaluation on a sample of 12 out of 43 sites retained, representing EUR 4 M for a total project amount of EUR 25 M, and a population of 20,600 habitants) and EUR 233 for PK12 in Djibouti

view of what is commonly practiced, and which the intervention contexts may fail to justify. However, considerable differences are observed in certain areas, without necessarily being linked to misappropriation or corrupt practices: such differences may sometimes result from the simple application of "external" pricing to activities managed hitherto without referring to the international market of consultancy or expertise, but rather to remuneration practices of the local labour market.

A very simple initial measure could consist in TFPs contributing to the design of an observatory of prices practiced in development projects, a kind of international market rating scale. In the same vein, assuming that the more or less sustainability of projects has an impact on the real efficiency of projects, TFPs could work to establish an observatory of sustainability of development projects by relying, where appropriate, on information from the end beneficiaries of these projects.

Conclusion

Generally, in a value for money approach, it would be advisable to use statistical and cost accounting methods in day-to-day project and programme evaluations. These evaluations are rarely integrated into analyses on efficiency, which in itself is often only briefly examined, and the analysis is often limited to checking for gaps between estimated and actual budgets and duration. This lack of statistical or accounting research is due to what is perceived as the simplistic nature of these approaches which do not attract the attention of academia. It is certainly a consequence of the implicit line drawn between evaluative analyses and internal audit work.

Author's Profile



Bertrand Savoye, is an economist working with the Research and Development Division of the French Development Agency (Agence française de développement, AFD). He formerly worked in the operational, training and retrospective evaluation services of AFD. Before joining the AFD, he worked at the National Institute of Statistics and Economics Research of France.