



Aid Coordination and Harmonisation in the Health Sector: the Case of Palestine

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Overview

Part I: the Current Situation of Aid Delivery and Aid Harmonisation Efforts in Palestine

- The Donors' Intervention in the Health Sector in Palestine
- Country Factor: Specificity of Palestine
- Consequences of Non-Cooperation
- Attempts to Coordinate Aid and Progress to Date



Overview

Part II: Theoretical Approaches to Modelling Aid Harmonisation

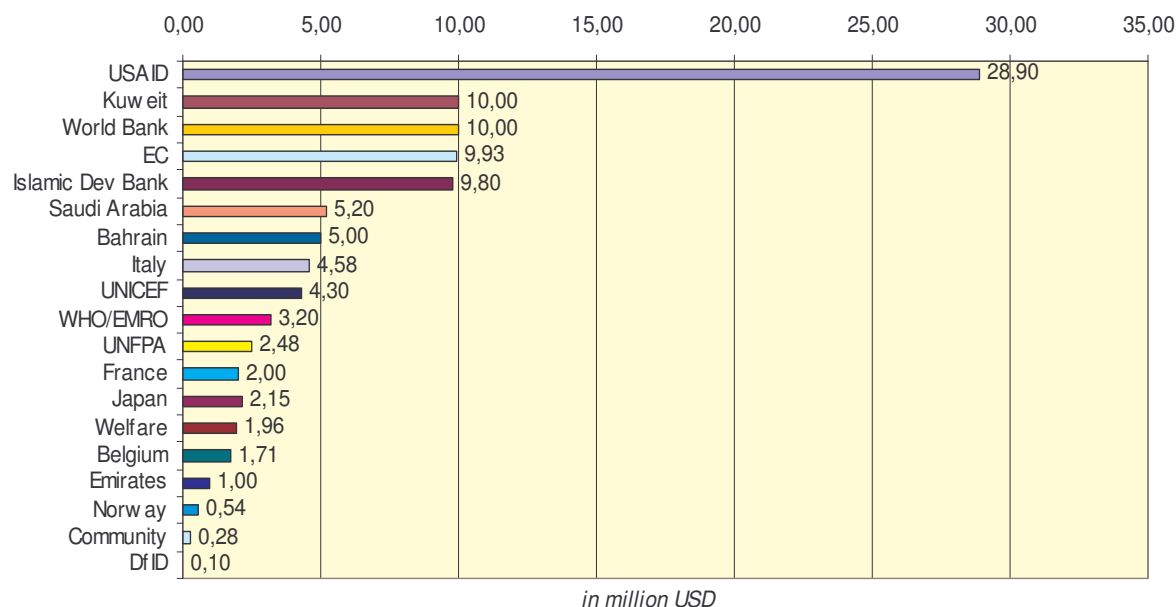
- Common Agency and the Model of Motivated Agents
- Further extensions



1. Current Situation of Aid Delivery and Harmonisation Efforts in Palestine

1. Key role of the International Donors' community in supporting the implementation of the National Strategic Health Plan (1999-2003) as well as in defining new objectives and areas of intervention in Palestine.
2. The MoH has been supervising a portfolio of about 65 projects amounting to a total of USD 103 million in the health sector as a whole since 2002.
3. About 20 donors are currently funding projects

Donor's Ranking of Ongoing Projects, Health Sector, Palestine, June 2005



Source: International Cooperation Department, MoH, 2005

1.1. The Donors' Intervention in the Health Sector in Palestine

- These general figures suggest that aid is still very fragmented.
- In addition to the aid provided by bilateral and multilateral donors, there is a number of projects financed by international NGOs



The Donors' Intervention in the Health Sector in Palestine

- In spite of the high level of this contribution, external assistance is fragmented and inconsistent (no clear framework)
- This is due to the limited attention given to priority setting and to the lack of coordination between the international community and the PA, the MoH and Palestinian Organisations.
- These “donor driven” health interventions (in which the Palestinians have limited choice or influence) have drawn the attention of the donors regarding the capacity of the MoH to deliver effective health strategies.
- As a result, a strong need for coordination and harmonisation of donors' activities has emerged



1.2 Country Factor: Specificity of Palestine

- Higher vulnerability of Palestinian territories due to the 2nd intifada (almost total collapse of the Palestinian economy)
- Lack of guaranteed export earnings and the weaknesses of the PA budget (EU supported)
- Despite regular investments, most of the Palestinian infrastructure is outdated.
- As a result, the Palestinian territories are highly dependent on external support (ODA to Palestine constituted 43% of GNI in 2003)
- Decision on development assistance harmonisation is very much political.

The Problem? A list of good intentions...

1	Donor driven priorities & systems	<div></div>
2	Difficulties with donor procedures	<div></div>
3	Uncoordinated donor practices	<div></div>
4	Excessive demands on time	<div></div>
5	Delays in disbursements	<div></div>
6	Lack of information	<div></div>
7	Demands beyond national capacity	<div></div>

Identification and ranking by developing countries of the problems in the aid delivery system, per the OECD-DAC Needs Assessment, 2002

Problems in the aid delivery system in Palestine

- client oriented approach (donor driven priorities & systems)
- heavy bureaucracy system (difficulties with complex donor procedures, uncoordinated donor practices, excessive demands on time or delays in disbursements)
- lack of information
- donors' demands beyond national capacity.




Problems in the aid delivery system in Palestine

- Reason: Palestine witnessed little aid coordination: up to 60 aid agencies are represented!
- multiple country strategies, diagnostic and lending instruments, including redundant/duplicate systems of due diligence (accounting, budgeting, audit, procurement, environmental and social safeguards, monitoring and reporting, etc.) as well as a waste of time, effort, and resources.
- At the MoH alone, several project implementation units are keeping busy some of its best staff.



1.3. Consequences of Non-Cooperation

- continuing undermining of country ownership. Reforms at the MoH are very much pushed by donors but high level officials find it difficult to agree between themselves on what direction to take.
- Secondly, uncoordinated donor actions weaken the capacity of the recipient country, and increase unproductive transaction costs. The West Bank and Gaza strip are probably the most visited areas by donors



Consequences of Non-Cooperation

- uncoordinated and/or duplicated donor missions result in higher costs of aid delivery on the side of the donors, but also in increased and dispersed efforts by the receiving country officials.
- All of this leads to lower aid effectiveness
- as a result of the reduced aid efficiency, there has been a decreasing public support for aid, both on the side of Palestinians, and on the side of donors



1.4. Attempts to Coordinate Aid and Progress to Date

- initiatives of the donors and the PA included the creation of the Local Aid Coordination Committee (LACC) and Sector Working Groups (SWG).
- In 2001 the Health SWG endorsed the establishment of health Thematic groups according to specific thematic areas, such as Reproductive Health, Management Information System, Oncology, Mental Health



Attempts to Coordinate Aid and Progress to Date

- The mandate of such groups is to promote collaboration in specific health areas, and to facilitate more operational, focused and thorough technical discussion among key players, involving representatives of both donors and service providers.
- During the years 2004-2005, noticeable progress has been made with the re-activation of the SWG and of the thematic groups in nutrition and in mental health (fall 2004), and woman and child health (spring 2005).



Ownership, Alignment, Harmonisation

- Further aid coordination efforts were carried out through the Health Sector Review
- However, on a regular basis, there has been little information sharing, as the SWG agenda continues being limited and donors are still unaware of each other's missions and activities

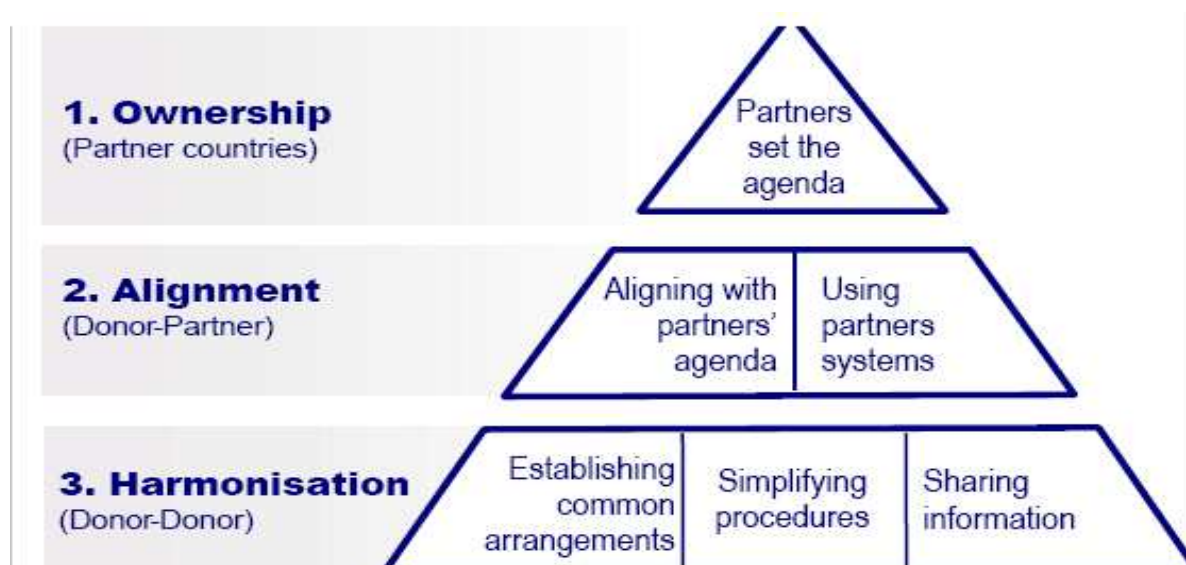
Rome Declaration (Feb 2003) On

Aid Harmonization & Alignment

A Commitment by Donors and Partner Countries to Fundamental Change ...

1. Strengthen country's leadership and ownership
2. Align donor programs with country priorities and improved systems
3. Use harmonised processes, procedures and requirements, eliminate duplication of efforts, encourage collaborative behaviour
4. Implement good practice principles and practices in aid delivery and management

Consensus on action framework





Harmonisation

- Harmonisation of procedures is still almost inexistent. In particular, there is little coordination between major donors with regard to procurement, financial management, and project management and implementation



Paris High-Level Forum (Feb 2005) on **Aid Harmonization & Alignment**

Commitments from the Paris Declaration on Aid Effectiveness include:

- Developing countries will exercise effective leadership over their development policies, strategies, and to coordinate development actions;
- Donor countries will base their overall support on receiving countries' national development strategies, institutions, and procedures;
- Donor countries will work so that their actions are more harmonized, transparent, and collectively effective;
- All countries will manage resources and improve decision-making for results;
- Donor and developing countries pledge that they will be mutually accountable for development results.



The current practice of Palestine

- the PA coordinates aid through: the MoP, the MoF, and the Prime Minister's Office.
- advisory or consultative organs exist, such as the HSR, SWG, TG.
- to some extent, the roles and functions of these bodies overlap and are not clearly delineated, and an adequate internal coordination is not always assured.
- in all, the present situation limits clear government ownership and hampers the government's capacity to take a strong lead in aid coordination.



The situation with donors' alignment in Palestine

- has been hampered by the limited understanding of program/sector approaches.
- the discussion among donors as well as between donors and the government during 2004-2005 has shown that many actors, both on the donor and the government sides, have not been sufficiently aware of the work done to draw lessons and extract best practices, notably in the framework of the OECD-DAC



Why the progress is slow?

- Political reasons: donors have different objection functions
- Visibility and Accountability
- Cost of harmonisation
- Incentive structure: on political, institutional, individual levels



Part II: Modelling Aid Harmonisation

The Goal:

Construct a model which would

- set up the conditions for harmonisation to work
- suggest potential caveats to harmonisation
- come up with an appropriate incentive structure



Modelling Aid Harmonisation

The Ideal Set-up:

- Several donors, one recipient
- Different objective functions
- Both cooperation and noncooperation sustainable
- Recipient's leadership
- Transaction costs and costs of harmonisation
- Appropriate incentive structure



Starting Point: One Donor, One Recipient

The Model of Motivated Agents (Besley & Ghatak, 2004)

- Economic agents characterized by a mission
- All projects require one principal and one agent
- Outcomes: $Y_H = 1$ ("high") or $Y_L = 0$ ("low")
- Agents exert effort e , at a cost, $c(e) = e^2/2$
- $\text{Prob}(Y_H) = e$
- Minimum consumption level of the agent: $\underline{w} \geq 0$

The Model of Motivated Agents (Besley and Ghatak, 2004)

Types of principals: $i \in \{0, 1, 2\}$

Types of agents: $j \in \{0, 1, 2\}$

Payoffs in case of failure: 0

Payoffs in case of success:

- principals: $\pi_i > 0$; π_0 – monetary, $\pi_1 = \pi_2 = \pi$ - nonmonetary
- agents: $\theta \geq 0$ – depending on principal's type:

$$\theta_{ij} = \begin{cases} 0 & i = 0 \text{ and/or } j = 0 \\ \theta & i \in \{1, 2\}, j \in \{1, 2\}, i \neq j \\ \bar{\theta} & i \in \{1, 2\}, j \in \{1, 2\}, i = j \end{cases}$$

The Model of Motivated Agents (Besley and Ghatak, 2004)

Contracts have two components:

a fixed wage w_{ij} , which is paid regardless of the project's outcome

a fixed bonus b_{ij} , which the agent receives if the project is successful

Agent's reservation utility: $u \geq 0$

Optimal Contracts

First best: effort is contractible

Second best: effort is non-contractible:

$$\max_{\{b_{ij}, w_{ij}\}} u_{ij}^p = (\pi_i - b_{ij})e_{ij} - w_{ij}$$

subject to:

1) the participation constraint of the agent:

$$u_{ij}^a = e_{ij}(b_{ij} + \theta_{ij}) + w_{ij} - \frac{1}{2}e_{ij}^2 \geq \bar{u}_j$$

2) the incentive-compatibility constraint

$$e_{ij} = \arg \max_{e_{ij} \in [0,1]} (e_{ij}(b_{ij} + \theta_{ij}) + w_{ij} - \frac{1}{2}e_{ij}^2)$$

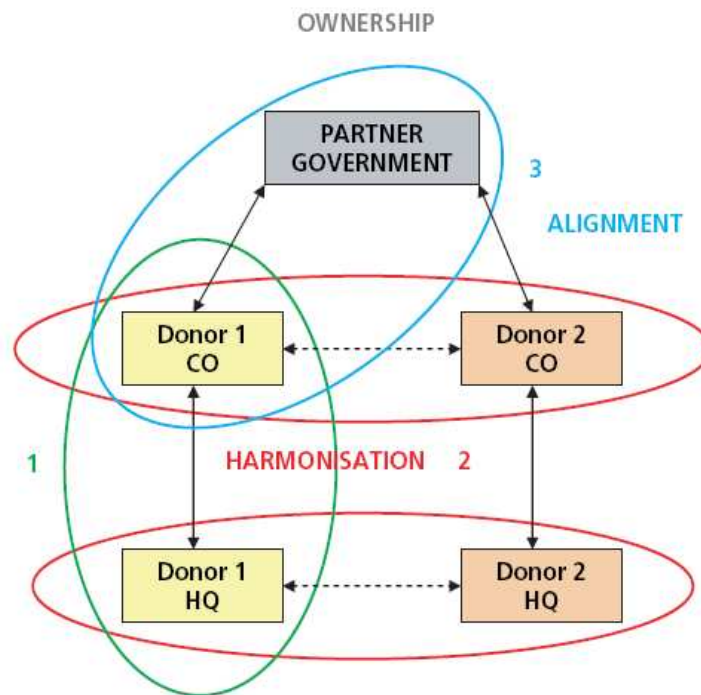
3) the limited liability constraint

$$b_{ij} + w_{ij} \geq \underline{w}, w_{ij} \geq \underline{w}$$

Basic Predictions:

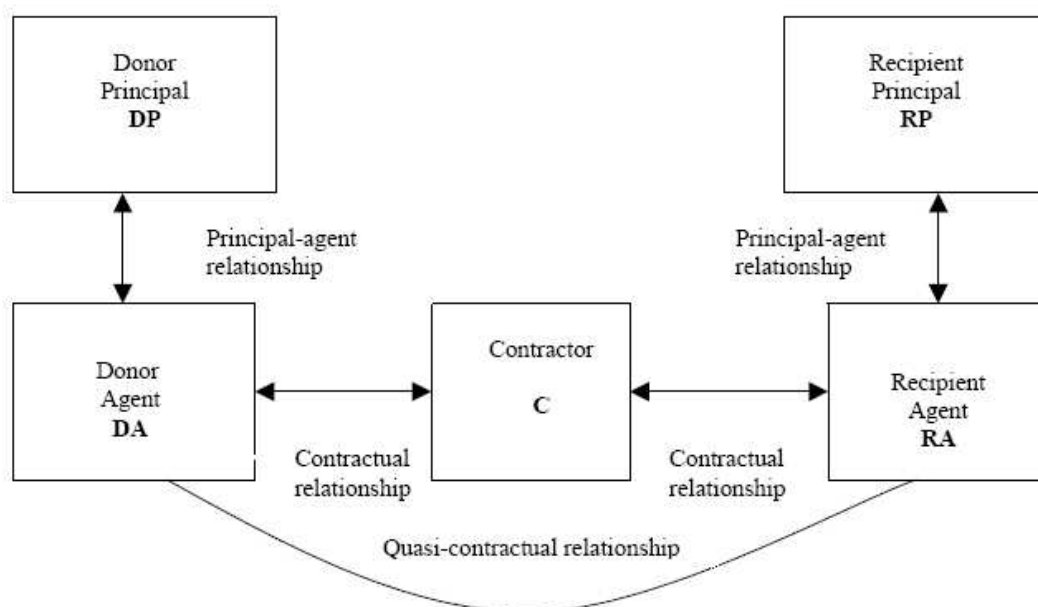
- In the optimum, the fixed payment to the agent is set at its minimum accepted level
 - Supplying a bonus is costly, so the principal faces the trade-off of setting a bonus higher or lower
 - Case 1:
Agent values the project more than the principal =>> no bonus payment
 - Case 2:
Principal values the project more than the agent =>> bonus as an incentive
 - Case 3:
Principal and agent have the same valuation of the project =>> bonus is paid, but bonus is lower, and agent's effort is higher, than in the case when the principal and the agent value only the monetary side of the project
- When principals and agents have the same non-monetary valuation of the projects, the levels of the productivity in such projects will be higher

More on incentives...



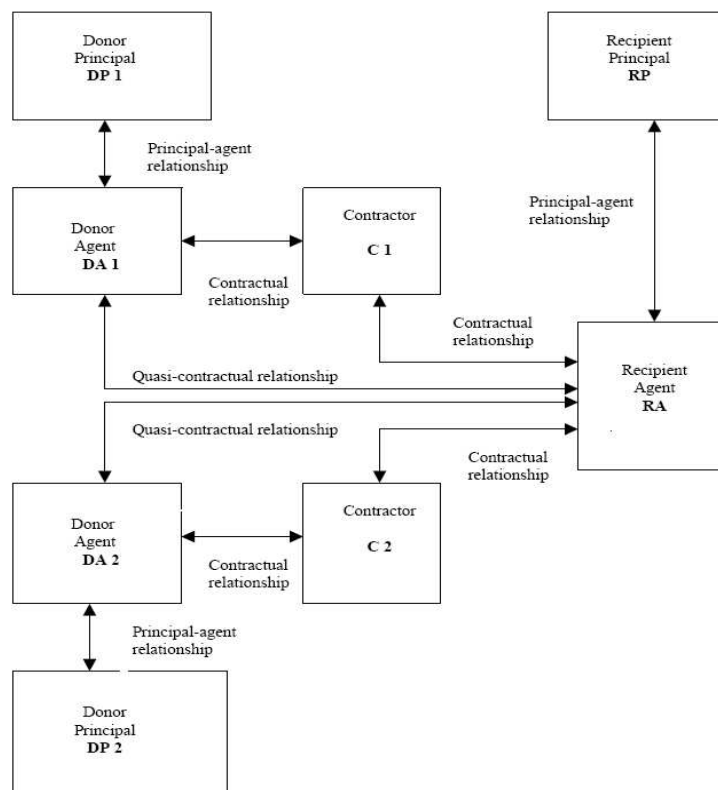
Source: De Renzio et al (2005)

Relationships of Foreign Aid Donors



Source: Murrell (2002), p.76

Relationships of Foreign Aid Donors



Thank you