

Comment on Jacob Svensson: The institutional economics of foreign aid

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Svensson's paper highlights several important aspects of development assistance that the donor community and partner countries need to be very aware of—and reminded of—and take into account when interacting financially or in the dialogue with partner countries. This comment will not focus on the details of the specific underlying incentive mechanisms suggested by Svensson, but rather on the relevance of the paper given the current foreign aid agenda.

When reading the paper, the purpose is not evident. It is not a paper presenting *already known hypotheses but with new evidence of the significance of the hypotheses*. The institutional problems presented are not empirically tested and the empirical material or references are clearly selected as illustrative examples in order to explain, not prove, the problems.

An alternative purpose could have been to present *new hypotheses with illustrative examples*, but the problems presented are not new. They are not just well-known problems, they are also dealt with—or being dealt with—with more or less success. One example is the Paris Declaration, signed by about 50 countries (donors as well as partner countries) and 40 organisations, on how to improve aid effectiveness. The agreement stresses several areas which are all responses to the problems mentioned by Svensson:

- Harmonisation¹: Dealing with problems of multiple agencies and transaction costs.
- Alignment²: Dealing with the lack of a coherent development framework as well as capacity constraints (not least connected to the public financial management system).
- Ownership³: Dealing with the inability of conditionalities and commitments.

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¹ Donors' actions are more harmonised, transparent and collectively efficient.

² Donors base their overall support on partner countries' national development strategies, institutions and procedures.

- Mutual Accountability⁴: Dealing with the information gap (for example by supporting the parliament).
- Management for Result⁵: Dealing with the problem of output focus and lack of feed-back loops.

The transition to the new agenda (including the switch to general budget support, the Rome and the Paris Declaration, etc.) is mentioned very briefly, without any details on what problems it tries to address, and Svensson argues “It is unclear, though, if these declarations are anything but declarations. That is, it is unclear if the declarations are followed by changed donor practices”. They are both followed and preceded by changes in donor practices. Many field units are even complaining that donors’ headquarters need to better keep up with reality—the Paris Agenda is already the starting point for development cooperation in several of our partner countries. Uganda, Tanzania and Zambia are some African examples where joint assistance strategies combined with division of labour among donors are taken for granted. Many of our policies and guidelines need to be revised in order to fit the new agenda and the field is telling us it is urgent.

Hence, there is no doubt that things are happening but also no doubt that there is still a great deal to learn about aid effectiveness. So far, there has been a natural focus on the basics such as donor harmonisation, public financial management, budget allocation to poverty sectors, etc, while the focus now needs to be switched towards improved growth and poverty reduction policies, result-based management and continuous evaluation and management mechanisms.

The final interpretation of the purpose of the paper is a *presentation of old hypotheses, with some illustrative examples*. Svensson’s intention may not be to provide evidence that the problems do exist, but rather to remind the donor community about them and how important it is that they are taken into account. The paper is useful as a map over these problems and the grouping of the problems according to their basic incentive mechanisms is very helpful.

³ Partner countries exercise effective leadership over their development policies, and strategies and co-ordinate development actions.

⁴ Donor and partners are accountable for development results.

⁵ Managing resources and improving decision-making for results.

However, the experience from trying to solve these problems has resulted in sources of new information for empirical research as well as insights about new potential problems. Given this, it would have been valuable if Svensson had taken the paper a bit further. When it comes to the problems presented, the donor community and partner countries are in the implementation stage and need guidance for further improvements of effectiveness, i.e. not problem identification but empirical research on what works and what does not and why. At the same time, new problems are arising and for those, there is a need for problem identification and new hypotheses.

It would therefore be helpful with a slightly revised research agenda, but still dealing with the important issues presented by Svensson. Questions that need to be considered are for example:

1. Under what circumstances do different aspects of the new foreign aid policy agenda work, and when do they not?

Some parts of general budget support or the Paris Declaration have worked in some countries but not in others. Given that there now exist several observations over time and cross-country, it is possible to learn more about the optimal policy or approach to deal with the problems presented by Svensson in a specific development stage of a specific country. Is harmonisation strengthening ownership in some countries while undermining it in others, and what specific solutions do we need in these two groups? Should conditionalities only be used in some countries, for example where they are in line with the government's goals and hence strengthen the government's credibility towards investors and citizens? Are the effects dependent on the mix of modalities in a specific country? Which solution to "public good problems" works best, i.e. what is the experience of internalising external effects of one donor's support (for example, positive external effects on capacity building or negative external effects from hiring well-trained local staff)? The donor community and partner countries need to know more about best practices as well as pros and cons with alternative solutions.

2. How should different institutional problems be weighted and prioritized?

The Paris Declaration spells out a number of important principles and the donor community and partner countries try to implement more or less the whole agenda, in all countries and at the same time or at least with indistinct strategic priorities. Given limited capacity, there is a

need to identify the specific binding constraints for efficient development aid in a specific country and time context. What parts of the Paris Declaration, or other initiatives dealing with the institutional problems presented by Svensson, should be prioritized in different countries? Improvements of result-based management are perhaps only efficient in countries with an already functioning public financial system? Could it be the case that many donors internalize capacity development to some extent and that other, more urgent, problems should be prioritised at the margin? Making these types of prioritisations are crucial for effective foreign aid policy. It is at the same time extremely difficult given that they are all important problems that need to be addressed in the end and they are often connected to political interests of donor countries. Objective research could for these reasons make significant contributions in this area.

3. Which new problems are revealed from the experience so far?

The experience of trying to improve aid effectiveness so far has revealed new problems that the research community could help in identifying as well as in assessing their underlying causes in order to guide policy makers when trying to solve them. Only by looking at the experience with harmonisation there are several examples. One is the “ganging up” around a policy agenda (could be the PRS) when it is common knowledge that optimal policies are often context specific and that the context is changing over time. The planning process is needed to understand the specific context of the country and to identify causal links to the current and up-coming binding constraints. However, the “planning mechanism” that is in focus of the harmonisation agenda today needs to be complemented with a “searching mechanism”. The context is, as argued, changing and a trial-and-error approach (result-based management) is crucial and demands continuous learning opportunities through analyses of the same policy area over time. Another example of a revealed problem is the harmonisation of analytical work. This may result in a situation where there is only one major analysis for each policy area at the time of a new joint assistance strategy. However, different methodological approaches can give different answers to, or understanding of, problems in complex contexts. This negative effect of harmonisation on analytical pluralism is a major threat to mutual accountability and the possibilities for the citizens to have an informed opinion, i.e. a threat to the basics of a democracy. A final example of problems in the area of harmoni-

sation that need to be further elaborated is the weight given to ownership. Strong ownership over the planning and searching mechanism and its products as well as the choice of the lead donor, implies that donor agencies may support different development agendas in different countries. However, donors do not seem to align behind a policy agenda agreed by the partner country and the lead country, but rather support a policy agenda compromising all donors' agendas, leaving out strategic choices and thus, virtual ownership.

These are examples of the kind of problems the donor community and partner countries are currently dealing with and the areas where more research is needed in order to understand the underlying incentives mechanisms as well as the optimal solution design, given a specific context.

